

## Socially responsible investments - that is how ethical finance helps you save

Today, this world is known by the ESG acronym, and it rewards ethical companies. How to assess possible yields

### Marco Frojo

Today, socially responsible investments, which started on a low key a few decades ago, has become one of the most important topics in the field of savings due to the combined effect of demand from customers and marketing campaigns of the distribution chains. Concepts like "ethical finance" and "socially responsible investment" or acronyms like "ESG" and "SRP" are now currently used even though the lines of demarcation between them are not always clear. Indeed, today, there is no universally recognized standard to identify a "good" investment, and some of the vocabulary is by its very nature misleading. For example, what is ethical for any one person may not be ethical for another for the simple reason that this concept makes inroads into the field of personal convictions, beliefs and the culture of each country, population or group. Moreover, there are numerous ways in which you can invest in a "socially responsible" manner, ranging from the exclusion of specific companies such as, for example, producers of arms or tobacco, to initiatives that stray into philanthropy, such as, for example, funds that are dedicated to social housing. In this last case, money is invested for the construction of social housing, effectively relinquishing any remuneration for the invested capital. But these are extreme cases that involve institutional investors. For small savers, the world of responsible finance today is defined by three letters, ESG, that have prevailed over all other definitions. E stands for Environmental, S for Social, or rather mindful of society, and G for Governance indicating company management that is in line with not only economic but also ethical principles. In order to be admitted into the universe of ethical

finance, a company must therefore not be structurally dependent on fossil fuels and must not have a high water footprint; moreover, it must dispose of waste properly and it must not practise (or be complicit in) activities such as intensive exploitation of land or, even worse, deforestation. In the social context, this includes factors such as working conditions of employees, fair remuneration, gender equality, attention to health and safety in the workplace, and the protection of diversity. Just to mention the most important ones. And lastly, regarding governance, the expectation is that management acts not only in the interest of shareholders, but also in the interest of consumers and citizens. Furthermore, a company's top management must not have salaries that are out of proportion in comparison with the salaries of the company's employees, and a company that appeals to ethical funds must obviously never have been involved in corruption scandals and must not have any offshore branches for the purpose of tax evasion.

As already mentioned, selection can be made by exclusion or by rewarding those companies that, notwithstanding the fact that they operate in sectors that involve risk like, for example, the oil sector, try to minimise their impact (in the case of the oil sector, on the environment). This stimulates ethical behaviour precisely in those areas where the need is greatest. The big question that investors contemplating a "responsible" investment ask themselves, obviously, regards yield. Are yields lower than those for traditional investments because some of the more profitable sectors are excluded or do good governance practices favour performance? There is no one answer. As already mentioned, some financial instruments

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### Before making any decisions pay attention, as always, to commission costs

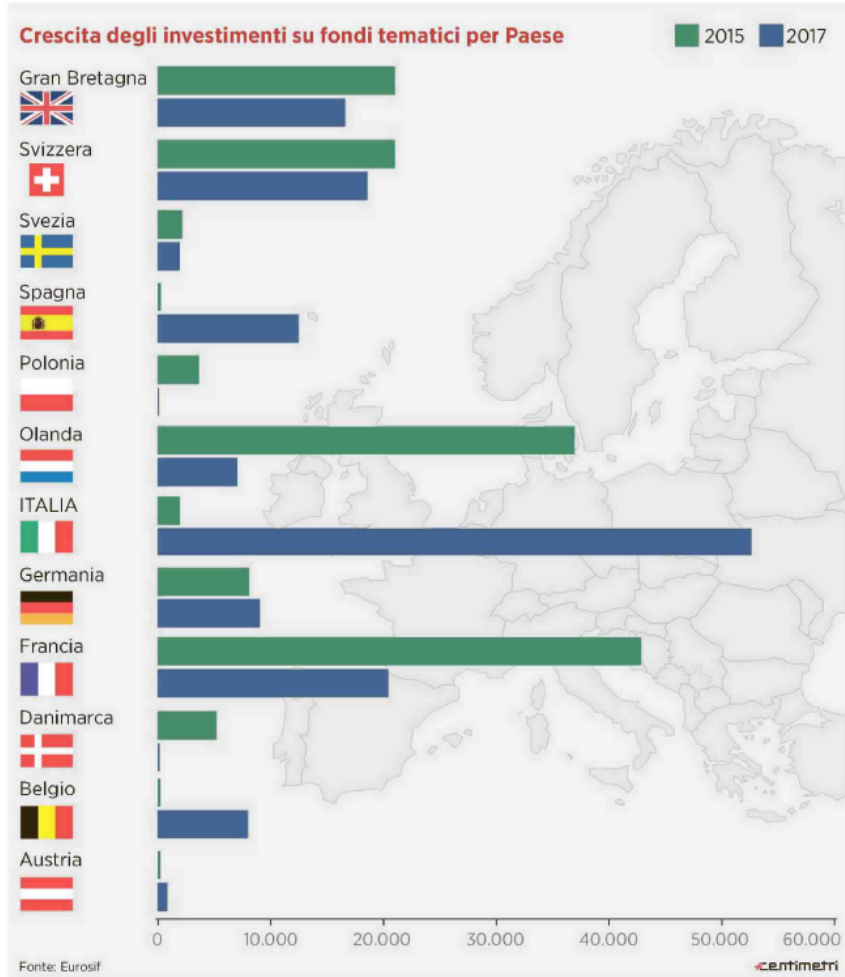
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that place an emphasis on the social front sacrifice returns, but this rule does not apply across the whole ESG spectrum. An attempt to provide an answer on the question of yields was made by Banor Sim in a joint project with the Politecnico di Milano, in which the performance of the most important European shares were examined against their ESG rating. It emerges from the study that, "the companies with good sustainability practices in all three ESG contexts are rewarded by the market". In particular, the index-listed industrial companies with a high ESG rating are the ones that are the most efficient in increasing the volume of their sales, improving their profit margins and growing their dividends. Without forgetting that socially responsible or green products are reaping increasing success with consumers and for companies that have projected an "ethical" image of themselves, this is an unequivocal advantage. However, one must also not forget that ESG finance is now fashionable and that prices could be inflated by this success. Today, in Italy, there are approximately 400 funds and ETFs with an explicit socially responsible mandate available to the small investor, of which 114 launched in the last three years. Even in this field, the golden rule recommending maximum attention to management commissions applies. High costs are almost never justified by the performances that are achieved, and in most cases, the only goal they achieve is that of giving a decisive haircut to the small investor's profits.

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La scheda	Data Sheet
Investimenti Responsabili	Responsible Investments
Il punto di incontro tra ESG e i rendimenti competitivi	Where ESG and competitive yields meet
Tradizionale	Traditional
Responsabile	Responsible
Sostenibile	Sustainable
"Impact Trend"	"Impact Trend"
"Impact Heavy"	"Impact Heavy"
Filantropia	Philanthropy
Rendimenti competitivi	Competitive yields
Integrazione ESG	ESG integration
Opportunità ad alto "impatto"	High "impact" opportunities
Solo criteri finanziari	Financial criteria only
Integrazione ESG	ESG integration
Integrazione ESG e rendimenti	ESG and yield integration
Temi a "impatto" positivo e rendimenti	Positive "impact" themes and yields
"Impatto" prima dei rendimenti	"Impact" before yield
Solo "impatto"	"Impact" only
Rendimento cumulato dei titoli dell'indice Stoxx Europe 600, in funzione del rating Esg	Cumulative yield of securities in the Stoxx Europe 600 index, as a function of ESG rating
Rating Esg	ESG rating
Basso	Low
Medio	Medium
alto	High
Fonte: Banor-Politecnico	Source: Banor-Politecnico



Crescita degli investimenti su fondi tematici per Paese	Growth of investments in thematic funds by country
Gran Bretagn	Great Britain
Svizzera	Switzerland
Svezia	Sweden
Spagna	Spain
Poloni	Poland
Olanda	Netherlands
ITALIA	ITALY
Germania	Germany
Francia	France
Danimarca	Denmark
Belgio	Belgium
Austria	Austria
Fonte: Eurosif	Source: Eurosif
centimetri	centimetri

