ESG and SRI funds – sustainability and ethics

Financial markets place a value on a whole host of different elements, such as economic growth, business robustness and management quality. Over the years, in addition to these purely economic factors, consideration has also been given to ESG ("Environmental, Social, Governance") criteria, allowing investors to opt for investments that are sustainable from an environmental, social and governance perspective. These criteria have become essential for companies, as ignoring or overlooking them could pose serious economic and/or reputational risks.

Other instruments available to investors who are mindful and cognisant of the issue of sustainability are SRI ("Socially Responsible Investing") funds, which apply a more selective investment philosophy, taking ethical and moral factors into account in the overall assessment of an investment.

Investors are becoming increasingly sensitive to these aspects and how they help create a positive impact on society and the economy.

KEY MESSAGES

It is important to understand and know how to integrate ESG factors into investment processes.

ESG investing – sustainability as an investment philosophy

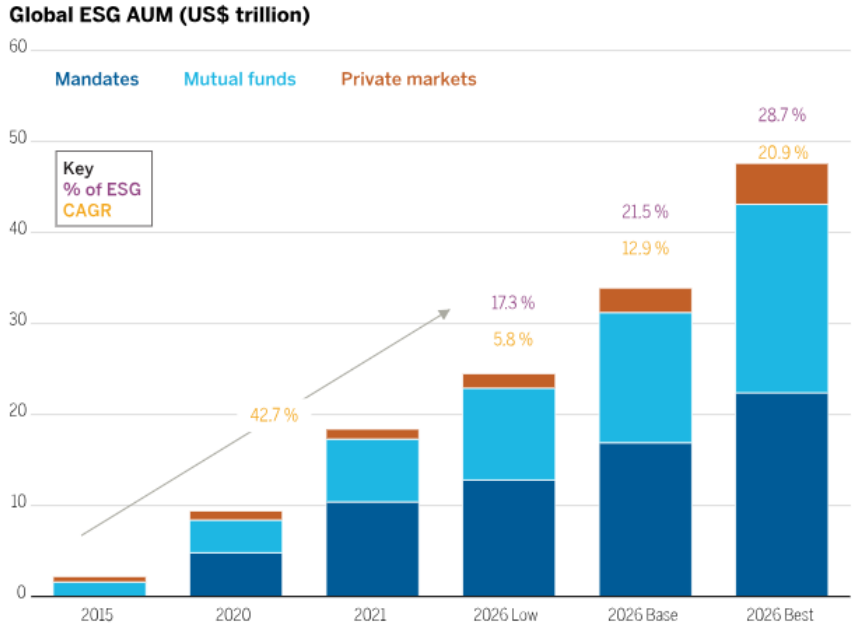
The term ESG can sometimes be misleading and a source of confusion. Many investors interpret it as one single aspect, when in reality it is quite the opposite. The sphere of sustainable investing encompasses a number of factors, whose importance varies according to the industry concerned in each case. For example, while the analysis of governance – such as shareholder rights, board composition etc. – can be considered universal, environmental and social factors do not carry the same weight within every company. Understanding and knowing how to integrate the various ESG aspects into investment processes can therefore be beneficial, as it enables investors to make informed and strategic decisions regarding their portfolios.

An example of the real-world relevance of the topic of sustainability comes in the form of the United Nations (UN) Sustainable Development Goals (SDGs), which identify 17 challenges that companies and investors need to address in order to protect the planet, the well-being and prosperity of individuals, and the right to good health, gender equality, justice and peace.

Source: [HUG – Geneva University Hospitals]

Investors are in a position to contribute directly or indirectly to one or more of these objectives, including the sustainability of their own investment decisions.

The growing demand for strategies that integrate ESG factors is a clear indication of how the market is moving in this direction.



Source: Wellington.com / Graphic: PwC Global ESG & AWM Market Research Centre analysis, Lipper, Preqin, ESG Global. Data as of 31 December 2021. Figures for 2026 low, base, and best case are projections.

Integrating ESG criteria into investments not only has a positive effect on the world and the company as a whole (non-financial performance), it also has an economic impact. From a business point of view, the management of environmental risks, safety and security and the composition of the workforce could influence financial performance, generating intrinsic value in the long term.
There is also increased awareness that companies with virtuous ESG practices have stronger and more competitive brands: in fact, it is increasingly common for investors to be willing to pay a premium (so-called “greenium”) to affiliate with such companies.

KEY MESSAGES

An even more selective investment philosophy.

SRI *investing*: sustainability coupled with ethical criteria

The next level on the scale of sustainable investments is occupied by SRI (Socially Responsible Investing) funds. Also referred to as **Ethical Funds**, they go one step further than the ESG approach, eliminating or supplementing investments based exclusively on a specific ethical consideration.

While the acronym ESG encompasses the environmental, social and governance aspects of a company’s operations when it comes to choosing the best securities with these parameters, **ethical investing applies an even more selective investment philosophy** to identify companies that satisfy certain ethical and moral standards. The manager of an ethical investment fund will therefore exclude a company whose economic activities are considered “unethical” from the portfolio and replace it with one aligned with these principles – establishing the “inclusive” and “exclusive” methods in the investment process. These are commonly referred to as:

- ***Positive screening***: investment in companies that demonstrate a stronger commitment to ethical issues;
- ***Negative screening***: exclusion of those companies that are not considered ethical. It is possible to have **sectoral exclusions** (comprising the exclusion of companies operating in industries that are deemed immoral or harmful to society and the environment) and **nominal exclusions** (involving the exclusion of individual companies for their failure to comply with certain international standards or conventions).

To conclude, when it comes to SRI investing, **investments in companies active in the following sectors are generally excluded**:

- alcohol, tobacco and other addictive substances;
- gambling;
- arms production;
- other sectors associated with human and labour rights violations.

In summary, **ESG funds** are business-oriented investments, ETFs, mutual funds and other instruments that establish **social, environmental and corporate management responsibilities as their cornerstones**. **SRI funds**, on the other hand, are environmentally and socially conscious instruments that **categorically and explicitly exclude unethical and immoral activities (at their discretion)** or include companies that are particularly virtuous in terms of the benefits they generate for society and the environment.

Opportunities

- *Help encourage sustainable practices and accelerate the desired social and environmental changes.*

Risks

- *Market fluctuations: depending on market phases, shares are subject to major fluctuations in their value, both upwards and downwards.*

To request the full publication containing the instruments we have selected and recommended or to get more information, please fill in the form on our website (only available to residents in Switzerland).

Alternatively, you can visit one of our Branches (you find us here).

Eric Elvio Mantovani
Head of
Investment Advisory
CIIA Certified International
Investment Analyst
CESGA Certified Environmental,
Social and Governance Analyst

Publisher

Banca Popolare di Sondrio (Suisse) SA
Investment Advisory
Via Maggio 1
CH-6900 Lugano
Tel. +4158 855 31 00
Fax +4158 855 31 15

Call Center 00800 800 767 76
esg@bps-suisse.ch
www.bps-suisse.ch/en

Disclaimer

This publication was created by the Investment Advisory service of Banca Popolare di Sondrio (SUISSE). The SBA “Directives on the Independence of Financial Research” do not apply.
This document does not constitute legal or tax advice, an offer or an invitation to subscribe for shares. Under no circumstances should it replace expert advice, which is necessary prior to making any (dis)investment decision and concerns the risks associated with financial instruments or an investor's objectives, financial situation or needs. It is therefore the investor's responsibility to consult both his/her financial advisor and the SBA’s “Risks Involved in Trading Financial Instruments” leaflet, which is available free of charge from any bank branch.
Banca Popolare di Sondrio (SUISSE)'s Investment Advisory Service makes every effort to obtain information from reliable sources. It cannot, however, guarantee that the information contained in this document is accurate, reliable and complete. The Bank therefore assumes no responsibility for the level of updating, accuracy and completeness of its content. Any opinions expressed herein may be subject to change without specific notification to the recipients thereof.
The rates and values specified in this document are indicative and not representative of actual prices/rates. The Bank accepts no liability for any damages, including loss of earnings, arising from the information contained in this document. Past performance is not to be considered a promise or guarantee of future performance. The value and income of investments held may fluctuate according to market and exchange rate conditions; the investment may lead to losses or decreases in capital.
Under no circumstances may the services and financial products referred to in this publication be offered to persons subject to a jurisdiction that restricts or prohibits them.

Published: May 2024