

Responsible investments do perform

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University of Queensland Business School academic, Dr Darren Lee, was one of eight experts from around the world dispelling the myth that responsible investments are doomed to under-perform.

Dr Lee was invited to speak at a United Nations Environmental Programme Financial Initiative (UNEP FI) Global Roundtable session held in Sydney last month, alongside global finance industry heavy-weights.

The guest speakers agreed that taking environmental, social and governance (ESG) factors into account in the investment management process was not detrimental to investment performance.

Dr Lee said that incorporating ESG factors into investment does not automatically lead to under-performance, and that various factors, as occurs with any investment strategy, such as managerial skills, investment style and time period, are all integral to investment performance.

“Rest assured – if you have a well diversified portfolio, you will receive competitive returns and this will not be hindered by ESG integration,” said Lee.

Dr Lee is one of the few researchers to directly analyse ESG (i.e. sustainability) and investment performance. He says the time is ripe to invest in ESG research, education and awareness.

Lee said, “There is an urgent need by industry and academia to engage in more research surrounding ESG factors and how they impact firm performance.”

Education is the most efficient approach to changing investment behaviour, according to another guest speaker, Dr Hendrik Garz Executive Director of West LB AG.

Garz said that ESG education is under-represented at universities, but the next generation needs the philosophy and the tools of ESG to be taught to them.

The session identified that there was the need, demand and logistics for formal and ongoing ESG education around the world, with UQ Business School one of the few elite schools around the world really looking at ESG.

The Roundtable also saw the launch of the HSBC sponsored performance report ‘Demystifying Responsible Investment Performance’, a review of key academic and broker research on ESG factors.

Dr Lee warned that many of the studies in the report use ethical screens and metrics when undertaking research.

Lee says, “A reliance on ethical research to justify investing in ESG strategies only adds to the misconception that ESG and ethical investing are the same thing.

“There is a profound difference between ethical investing and the process of incorporating the ‘materiality’ of ESG issues into your ongoing research analyses.

“Ethical investing is based purely on a ‘values’ system, whilst ESG research seeks to manage the risks and opportunities afforded to ESG issues.

“Clearly the confusion over the two terms may be holding back the adoption of ESG as an analytical tool in the finance community.”

Dr Lee believes that if ESG is to be adopted and embraced in the community, the distinction between ethical investing and ESG investing needs to be highlighted.

Dr Lee's research interest lies in socially responsible investing, integrating economic, social, and environmental concerns into the investment decision, and has published in international finance journals, the Journal of Multinational Financial Management and the UK Journal, Financial Letters.

Prior to working in academia Darren worked in industry in the areas of treasury, financial planning and funds management.

Source: UQ

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