



EXPERT INSIGHT



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Impact investing goes beyond ESG

Investors increasingly want to invest where their money makes a difference. Fortunately, the regulatory landscape in the EU is helping them make more informed decisions. Both the Green Taxonomy and SFDR are bringing more clarity and discipline to the investment process. Evidence-based analysis is replacing the unsubstantiated claims of clever marketing campaigns.

Whilst new EU standards and regulation are helpful, there is still much confusion around ESG, with a growing body of ratings providers using different methodologies and data sets and arriving at very different conclusions. We hope very much that there will be a more standardised approach and that the correlation between different providers' ESG ratings will become more robust and reliable.

There is a fundamental difference between ESG and Impact investing.

We like to characterise ESG as being about behaviours on a journey, whilst Impact describes the outcomes at the destination. Investing through an ESG lens doesn't, unfortunately, seem to offer investors much choice beyond the familiar names – excluding oil and tobacco – which would normally be offered in a global equity portfolio. Investing to make a positive impact on jobs, lives, communities and the environment offers a more purposeful role for capital. We believe this will be more appreciated in the coming year.

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The true benefits of Socially Responsible Investment, come not from buying listed equities in the secondary market but by deploying fresh capital to build sustainable real assets. Given the focus and energy seen at COP26 in Glasgow, investors will increasingly demand tangible results rather than just marketing spin. Making a difference cannot, by definition, be business as usual.

The key theme for 2022 will be to ensure a sustainable economic recovery,

providing secure well-paid jobs in those sectors – energy, infrastructure, transport, communications and welfare – which play a vital role in building resilient communities and societies.

In a world where we are seeing more barriers and borders erected, it will also be important to think holistically about our one and only planet. We cannot, in Western Europe, simply outsource the multiple negative consequences of climate change to somewhere else in the world. Closing polluting manufacturing plants at home simply to rebuild them abroad is no solution. We must address climate change at source, coming together with global solutions which go beyond national borders.

Our firm hope is that 2022 will be a year of new direct capital investment. A year of the real economy, real jobs, and real change. Our Energy Impact Trust recently launched on the London Stock Exchange is proof that the concept resonates with investors. ESG most definitely matters, but we believe that impact – investing with a purpose - matters even more.



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