

# Three misconceptions about sustainable investments



## Myth 1: “ESG is like philanthropy”

There remains some confusion between philanthropy and ESG investing. Some believe that “doing good means I’ll have to give up some performance”, says Mr Poon, calling this a “deeply entrenched trade-off perception”.

“Unlike philanthropy which generally involves just ‘writing cheques’ to do good, ESG investing has a dual focus – achieving financial outperformance over the long term, while generating ESG-tied returns.” ESG investing also takes a broader sweep of ESG issues, compared to the conventional distinct pillars of philanthropy, such as education and poverty relief.

To add, ESG investing generally allows for better measurement and reporting of the impact made, on top of investment performance. These new ESG-related measurement capabilities are continually being refined, which can also support the measurement of benefits that traditional philanthropies create.



## Myth 2: “ESG is a product type”

Some clients see ESG as just a new asset class or product type. But ESG is an approach in screening the quality of an investment – over and above traditional fundamental filters. An investment is further assessed to discern its “ESG” quality, says Mr Poon. When applied right, it can contribute to optimising the portfolio’s returns, and providing better protection against downside E, S, and G tail-risks. There are two ways investors can participate in ESG investing:

Thematic investments: Invest in a sustainability-themed financial instrument that aligns with your values, or to support an issue you feel strongly about. For example, a passionate environmental advocate may consider an equity fund investing in clean energy and waste management companies.

ESG integration: This means considering ESG factors alongside financial ones when screening for suitable investments. For instance, before buying a stock, consider how a company deals with the environment, treats its employees, and its governance.



## Myth 3: “ESG is just a passing fad”

“We believe ESG is not a passing fad; but part of a long-term structural shift in recognising we are all living in a closely interconnected world,” says Mr Poon. “Very much like the air we breathe – while it has always been essential, it remained universally invisible. We never give it more than a passing thought until we are deprived of it ... Covid-19 accentuated many ESG issues overnight.”

DBS thinks increasingly, all businesses will be looked at through the prism of how they can play a bigger role as a force for good. Major institutional investors, starting with Europe and increasingly catching on in the US, have increasingly looked at putting their investments into good ESG companies as well. This is a leading indicator for funds flowing into ESG investments, says Mr Poon. Most institutional investors in Europe and the US have already integrated ESG criteria into their selection process or at least put in place a minimum ESG investment. The same trend is growing fast in Asia too.