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The Rise of ESG Investing: **How funds are responding to demand for Socially Responsible Investments**

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ESG – Environmental, Social, and Governance – a term well known to most people in the investment arena these days, goes back to the year 2004 when a report entitled "Who Cares Wins" first made reference to ESG following the coming together and eventual collaboration of 20+ financial institutions from across 9 countries with the aim to integrate environmental, social and corporate governance matters in the financial services industry.

In deciding where and how much to invest, when an investor combines the integration of environmental, social and governance factors into his or her thought process, that investor is seen as someone investing "responsibly" and "sustainably". Such responsible and sustainable investments are those that are made while considering the environment, overall human wellbeing, as well as the economy in general. This goes in line with the ever-growing assumption that the financial well-being of an organisation is increasingly dependent on environmental and social factors.

ESG investing is gaining more popularity, as we are able to witness a gradual rise in the number of investors and related stakeholders making the use of ESG and climate data tools a key factor in their investment decision-making process. There has also been a recent 'behavioural' change observed in investors where they now seek value that goes beyond traditional financial returns. It is beyond doubt that climate change has had considerable impact on the lives and livelihoods of people across the world. Coupled with the growing demand for social equity across all spheres of life, it is evident that corporations and more importantly, Funds that have a proven track record in their commitment towards the environment and are seen as being socially responsible, are seriously backed by investors.

The COVID-19 pandemic, since the last three years, has forced the financial community to revisit their investment choices and strategies. Investors' decision to invest in companies with strong ESG factors has since been on the rise, exponentially. The fact that these companies delivered a positive performance during the pandemic showed that their responsible business practices are bearing the fruits, thus making them more resilient when operating in a challenging business environment.

Leading DFIs such as the European Investment Bank (EIB) and the African Development Bank (AfDB), amongst others, are promoting ESG standards and goals as part of their investment objectives and strategies which encompass resource efficiency and pollution prevention, protection and conservation of biodiversity and ecosystem, climate change, gender equalities, safeguarding health, safety and security of workers. In 2022, AfDB launched a 2-year theme bond, the first-ever African frontier currency-denominated environmental, social and governance issuance by a multilateral development institution.

Many Funds have been responding to this demand by including ESG investment options in their offerings. The following points summarize as to how Funds are responding to the rise of ESG investing:

01 Incorporating ESG criteria into investment decisions: Many Funds analyse the ESG performance of companies before making investment decisions. This includes evaluating the environmental impact, labour practices, and adherence to corporate governance of those entities they intend to invest in. Nowadays, ESG metrics and ratings are very commonly used to assess a company's performance.

02 Engaging with companies on ESG issues: Some Funds are actively engaging with companies to push for better ESG performance and practices. This includes filing shareholder resolutions, engaging in proxy voting, and ensuring clear communication lines are established with company management on matters related to ESG.

03 Increasing transparency: Acting in a more transparent manner when it comes to ESG policies and practices, is favoured by most Funds. This includes disclosing their ESG criteria and rating methodologies, as well as reporting on the ESG performance of their underlying investments.

Overall, the rise of ESG investing is encouraging Funds to consider the broader impact of their investments and to promote a culture of sustainable and socially responsible practices. This, in turn, encourages the investees and portfolio entities to become ESG-compliant by adopting a clear set of ESG related processes and procedures under their own policies. This undoubtedly has a chain effect and consequently, we are now witnessing an increasing number of investors and Funds demanding for greater transparency in respect of ESG related performance.

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