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MEDIA RELEASE

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Companies focused on improving ESG scores are tomorrow's winners - Ausbil

Ausbil Investment Management believes it is important to not only consider companies that are industry leaders in environment, social and governance (ESG) but also those companies seeking to improve their ESG performance.

Måns Carlsson-Sweeny, Head of ESG Research at Ausbil, said the market is saturated with discussion about ESG issues, however many investors are missing a crucial point about this increasingly important aspect of investing.

"Investors whose sole focus is only investing in companies with the relatively best ESG profiles might develop a portfolio of expensive stocks, and miss the potential for growth in companies with a positive ESG trajectory," said Mr Carlsson Sweeny.

"It makes sense to identify companies that are working to improve their ESG profiles. We believe ESG performance can be a lead indicator of operational performance, and the way companies deal with these types of issues is also a good proxy for management quality."

"Furthermore, companies that are improving their ESG approaches tend also to be those that are improving their overall business. And, in turn, that will be reflected in their profitability, risk management, and ultimately their share price."

Mr Carlsson-Sweeny said that investing in companies with forward momentum in their ESG performance can be beneficial from the perspective of adding alpha, as better risk management is likely to add a premium to valuation over time, though this can also apply in reverse.

"On the other hand, we sometimes take short positions in companies that have a poor and deteriorating ESG profile."

"Similarly, investors are also increasingly recognising that among similar companies, one with a good ESG profile should be valued with higher earnings multiples and trade above that of a similar company with a poor ESG profile."

Mr Carlsson-Sweeny added that ESG integration into analysis and investment decisions is about making better informed investment choices, ultimately in order to obtain higher returns. Investors looking at ESG factors are also looking at more variables than just earnings and valuations.

Companies with poor ESG profiles often perform poorly.

He also noted that the 'war on plastics' is a growing ESG issue, as new estimates reveal there will be more plastics in the ocean than fish by 2050[1].

"While some companies are responding to this challenge, others are being driven by changing consumer preferences. This is happening in our own backyard as seen in Australian supermarkets reducing their use of single-use plastic bags.

"The world is changing, and companies need to adapt, and demonstrate that they can adapt. How they approach ESG issues is a proxy for this."

ENDS

1. Ellen MacArthur Foundation, in partnership with the World Economic Forum. http://www3.weforum.org/docs/WEF_The_New_Plastics_Economy.pdf

About Ausbil Investment Management
Ausbil Investment Management Limited is a leading Australian based investment manager. Established in April 1997, Ausbil's core business is the management of Australian and global equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil is owned by its employees and New York Life Investment Management (NYLIM), a wholly owned subsidiary of New York Life Insurance Company. As at 30 September 2019, Ausbil manage over $12.0 billion in funds under management.

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