



The future of investing: taking the risk-return-impact approach

The latest Athena40 Forum conference ‘Leadership in a New World: Compassion, Competence, Confidence’ brought together business leaders from all over the world for a day of conversations about visionary leadership, women in decision making roles and how we can trigger positive changes in our societies.

Speaking on the “Ethics and Accountability in Business” panel, I argued in favour of a risk-return- impact approach as a cornerstone of future investment strategy, leaving behind the more conventional focus on the risk-return trade off. This multi-dimensional approach takes into account the three axes of blended value creation: financial performance, risk profile, social and environmental impact.

In this respect, the disruption caused by Covid-19 to entire sectors and countries has been a real eye-opener for investment managers, as well as the general public. It not only exposed the risks associated with not giving social or environment impact appropriate consideration in strategic planning, but more importantly highlighted the opportunities available to companies with ESG at the heart of their purpose.

It has shown that taking the long-term view pays.

Looking ahead, finding solutions to the problems we face today, to build back better, will be a key driver of innovation and growth. Companies with ESG factors integrated into their business models and strategies for the future are likely to be better positioned for growing regulatory requirements with respect to, for example, climate change. They will be better placed to attract tomorrow’s customers as consumption becomes more value oriented. Being committed to strong corporate values and ethics will also be critical for attracting and retaining talent.

All these competitive advantages are likely to lead not just to positive impact, but also to superior returns for investors.

As an increasing number of companies adopt this approach, investors too will need to integrate ESG factors with conventional economics to recognise rising stars and achieve superior investment performance.

At this turning point in history, we all have a role to play in accelerating this shift in mindset, by requiring greater transparency and accountability from the companies we invest in. After all, they are not only generating our returns but also shaping our future and that of the next generation.

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