

How to create a sustainable portfolio

Sustainable investment strategies are as varied and diverse as opinions on the subject matter itself. In the second part of our series, we take a deep dive into some of the most popular approaches



Everyone interprets sustainability in a slightly different way. And this diversity of opinion has found its way into the world of asset management, where a host of different strategies are employed to create 'sustainable' portfolios, some of which are used in combination.

The fact that there is no single approach has benefits to both consumers and companies:

- First, consumers have many options and can choose a strategy that best fits their own definition of sustainability.
- Second, the fact that there is no firm definition makes it easier for a company to evolve towards a more sustainable company. A one-size-fits-all definition could exclude a number of worthy companies and make it more difficult for them to achieve their sustainability goals.

Here are some key strategies that are used in sustainable investing:

[Sustainability: What is it and what does it mean for our investments?](#)

☐ Exclusion

An investor can choose to exclude certain companies or countries in his portfolio. This can be done for specific companies such as one that does not respect human rights, but also for entire industries such as tobacco or gaming. In countries where such considerations are already a legal requirement, exclusion can become an obligation. In Belgium, for example, it is forbidden to invest in or finance companies involved in the sale or use of controversial weapons such as cluster bombs or depleted uranium weapons.

[Is sustainability good for my wallet?](#)

☐ Best-in-Class

The "best-in-class" principle selects assets with the best [Environment, Social and Governance \(ESG\)](#) performance compared to others in the sector. It can be applied on the basis of the ESG score or on the basis of a change in the ESG score over time. What this means is that no company or country is excluded. Investing in a polluting company is therefore possible as long as it has the best ESG score within its sector.

[Sustainability: Will the hype fade?](#)

☐ Active ownership

Shareholders can enter into a dialogue with a company to influence company decisions on ESG issues. They can use their voting rights or ask questions during the general meeting. This strategy is in stark contrast to selling or not buying investments with dubious practices, such as exclusion.

☐ Thematic investing

Through this strategy an investor can focus on certain trends. Some of these trends are related to ESG, such as clean technology, green real estate or healthcare, and so this can also be categorised as sustainable investing.

☐ Impact investing

Impact investors want to have an impact on social and environmental issues. They draw up clear social and environmental objectives and are committed to measuring and reporting these. The target for the financial return generally varies from retaining capital to the risk-adjusted market return.

☐ ESG integration

In this strategy, ESG risks and opportunities are systematically included in the investment analysis. It's not necessary to set criteria to exclude certain companies, sectors or countries (as in exclusion). Nor is it necessary to add companies that score relatively better on ESG issues (such as best-in-class). Users of this strategy are aware that ESG issues entail risks and they can decide not to take them. Of course, ESG also offers opportunities and an ESG analysis can help to identify them.

So we can use the above strategies to invest in a sustainable way. Doing this is obviously a good idea for society as investing in sustainable companies improves their financing conditions and this, in turn, makes it easier for these companies to achieve their goals. But what about the financial return for investors? Well, we can be optimistic.

[Read the next article in this series: Is Sustainability Good for my Wallet?](#)