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A wind of values underpins companies with a focus on sustainability

Warren Buffet was one of the first to consider the ethics of the company's management when assessing an investment's risk

by Massimiliano Cagliero, Chief Executive Officer and founder of Banor

Banor's founder, Massimiliano Cagliero

The world does not yet have a certification body that can award environmental, social and governance (ESG) ratings.

In recent years a marked change in values has been taking place in the financial markets with respect to the criteria guiding investment decisions. This initially gained a footing – in the late 1990s – in the markets of the United States, to then spread to European and Asian markets.

Investment in listed stocks has always been inspired by the clear and agreed criterion of economic returns. These returns were – and are – made up of capital gains and dividends. In terms of value investing – the philosophy that Banor has always espoused – the classic text is "The intelligent investor" by Benjamin Graham (1949). Graham's text focuses on fundamentals analysis with a view to identifying investment opportunities that can bring a positive return over the years. It does not refer to other considerations/values that might enter into play in evaluating investments. Warren Buffet, one of the all-time "star" investors, was among the first to underscore that to evaluate an investment's risk profile correctly you also need to take the management's approach to ethics into consideration.

Attention to values like ethics, sustainability, and transparency has become a vital element when analysing any type of investment. This interest has two dimensions. The first looks inside the company. And the second looks to the market and external stakeholders. As regards the first dimension, growing attention is paid to, and a growing emphasis is placed on, the company's management culture. This encompasses the presence of appropriate corporate governance rules, the protection of minorities, the timeline for investment decisions and in general the company's compliance with an acceptable, agreed code of conduct and behaviour.

IN TERMS OF VALUE INVESTING – THE PHILOSOPHY THAT BANOR HAS ALWAYS ESPOUSED – THE CLASSIC TEXT IS "THE INTELLIGENT INVESTOR" BY BENJAMIN GRAHAM (1949)

As an indication of the importance of this "internal" value, we need only think of the recent Uber and Starbucks cases. The development of the B Corp companies [companies receiving certification for "social and environmental performance"] is part of this framework of thought.

As regards the second dimension, values concerning external stakeholders are the most common principle we are now hearing about. First and foremost a concern for the environmental and social dimensions, and then for methods of production and the resources used in manufacturing processes, from energy to personnel. The values I'd define as the most significant are, on the one hand, the internal corporate and corporate governance culture and, on the other, concern for the resources used and the product's usefulness to society. We're still lagging some way behind – and are making difficult progress – in drawing up a detailed overview of how the human resources used in the production process are managed. The focus on these values is not the same in the US as in Europe. As the US market is ahead of us, "greenwashing" is becoming less and less common there but is still present – sometimes widely so – in Europe.

Another aspect to keep in mind is that there is as yet no third-party "higher" certifying body at the global level that can award an ESG rating to businesses and companies. It's a matter of time, and it will probably be one of the big names – S&P is trying to carve out a space in this sector – but to date there is no universally recognised body.

In the absence of a globally accepted external certification system, many asset managers incorporate a company's attention to these values in their analyses and have developed an internal rating system that influences the discount rate used to evaluate companies, and so the evaluation itself.