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The Shift Towards Ethical Investing In MENA And Beyond

A hot investment topic right now is the shift to directing savings and investments towards companies and funds that use sustainability drivers to add value to shareholders. This so-called "ethical investing" is part of a generational trend of individuals being increasingly mindful of the impact their actions can have on the wider community. More investors want their portfolios to better reflect their personal beliefs, as individuals realize that they can have a big impact on the world through their investments.

This movement primarily seems to be coming from Europe, where companies are increasingly being required by both regulators and client demand to consider environmental, social and governance impacts as part of their business outcomes. This is, however, equally relevant to the Middle Eastern audience.

A commitment to investments in line with personal beliefs is not new to Middle Eastern investors; Islamic Finance principles have been rooted in socially responsible investing for hundreds of years. But what is an interesting observation from the broader trend towards ethical investing is that it is not just about doing good. Investments that prioritize environmental, social and governance (ESG) are outperforming non-ESG investments.

A research study by Hermes Investment Management found that companies with good or improving corporate governance have tended to outperform companies with poor or worsening governance by 30 basis points per month on average since the beginning of 2009. This data proves that there is value in putting your money where your mouth (or your heart) is.

While Islamic Finance is already a huge business, calculated at being worth around $2.4 trillion in 2017 and estimated to increase to $3.85 trillion by 2023, ethical investing as a wider concept is still nascent. At the end of 2017, sustainable investing represented $12 trillion in US assets, which is a minuscule fraction compared to the total of $263 trillion or approximately 4.5% invested in the global public markets.

Despite the huge potential in ethical investing, a recent report by Deloitte showed that only a few people are aware of the enormous power they have to "vote with their savings". Deloitte indicates that there are several possible causes, which include excessive complexity and lack of transparency when investing. It is, however, very simple to make the shift to ESG-investments.

There are already the traditional Islamic Finance products such as Islamic Sukuk and Islamic asset-backed deposits available, but the race is now on within Middle Eastern banks to add a filtering service to identify solid-performing Islamic funds. There is still a challenge for investors in the Middle East to easily identify and trade Islamic compliant stocks and ETFs, especially on a global scale.

Earlier this year, Saxo Bank launched a digital investment portfolio that allows investors to make ethical investments. While this fund has only been available for five months, the first year take-up by clients is already higher than others in more traditional investments. This shows that people are interested in ethical investments and quicker to invest in these than in more traditional funds.

Focusing on short-term profit above social or ethical factors has been a favored investment strategy for a long time. The data shows that there certainly is a wrong perception that if you focus on doing good, profits will suffer. This misconception is quickly being proved wrong by new trends. By making ethical investments, you are not only growing your own profit but also helping support a bigger cause and possibly helping create a more sustainable future. As American philosopher Henry David Thoreau once said: “Goodness is the only investment that never fails.”

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