



**A4S**

**CFO LEADERSHIP  
NETWORK**

## AN INTEGRATED STRATEGY TO DRIVE SUSTAINABLE INVESTMENT

Case study: Gulf International Bank Asset Management



THE PRINCE OF WALES'S  
CHARITABLE FUND

**GiB**

ASSET  
MANAGEMENT



## WHAT?

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Gulf International Bank (UK) Limited (GIB UK), trading as GIB Asset Management (GIB AM), is a global asset manager with over US\$10 billion in assets under management. It was amongst the first Gulf Cooperation Council-owned asset management firms with global presence in London and New York. It has been providing institutional asset management services for over 40 years.

GIB AM's vision is to scale capital in support of sustainable development. The hallmarks of our approach are our international expertise, deep client relationships and ability to provide customized solutions that meet each individual investment objective, covering active and passive strategies.

At GIB AM, we have long considered environmental, social and governance (ESG) factors in our investment decisions for a number of years, through the application of Shariah principles. In 2018, we felt we needed to be more ambitious, and so refreshed our

corporate vision and strategy to reflect this and to meet the growing demand for sustainable financial solutions in the market.

Our updated vision and strategy include a commitment to scale-up and mobilize significant capital in support of sustainable development with the vision being split into three main strategic objectives:

- Developing products – with a focus on ESG related offerings;
- Diversifying our client base;
- Embedding sustainability throughout the organization, holding the same standards internally as we expect from others.

Our day-to-day decision making reflects these objectives and we are working with our clients to develop and implement long term, sustainable outcomes.



## WHY

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We developed our vision and strategy to meet our current and future clients' needs. We are seeing growing interest from clients in our ESG offerings and we expect the benefits from ESG investing to be more pronounced in the coming years. We are tracking a range of factors to measure these outcomes.

Our response also reflects the changing market conditions, such as the adoption of the UN Sustainable Development Goals (SDGs) and the recognition of the role of the finance sector in filling the financing gap.

Acknowledging the positive benefits from the implementation of our strategy and using the expertise gained in the process, GIB Group set up a Sustainability Council to drive the adoption of sustainable financial standards based on [The Principles for Responsible Banking](#) across the wider Group, including our headquarters (GIB BSC of Bahrain), critical subsidiaries GIB Saudi Arabia and GIB Capital, and branches in the United States and United Arab Emirates. This was in recognition that sustainability was a critical priority for us and required a more strategic and co-ordinated approach.

## HOW

We developed our strategy by determining what was most important to us through the twin perspectives of [Saudi Arabia's Vision 2030](#) and the UN SDGs. This formed the pillars of our framework which underpins our strategic objectives:

- Equality, diversity and human capital development
- Climate, environmental action and water
- Health and wellbeing
- Innovation and infrastructure
- Governance and accountability

This framework is used to structure and drive our investment analysis, to assess the impact of investments and to organise engagement activities. It forms the foundation of our [Responsible Investment \(RI\)](#) and [Stewardship policies](#).

We have also embedded our strategic objectives into our day-to-day business activities:

- Integrating sustainability into our governance and risk management frameworks. For example, we conducted a climate-related risk stress test for our capital adequacy assessment. The stress test concluded that our portfolios' exposure to climate-related risks was relatively low. However, the results reinforced our focus on developing ESG products, especially as we further developed our understanding of the possible climate-related risks.
- Setting ambitious targets and incorporating regular monitoring of metrics into management information.

- Developing a targeted set of research publications on sustainable investment using our in-depth expertise. These include topics such as [ESG: Impacting Impact](#); [ESG: Playing by the Rules](#) and [Sustainable and Responsible Investing](#). The publications highlight our expertise and allow us to identify and provide recommendations on gaps or limitations in the markets where we operate.

### Our pillars



## WORKING WITH THE GROUP

GIB AM has worked closely with the Group on its vision and strategy. The aim of being a sustainable finance provider was included as a Group level target in 2019. A Group Sustainability Council, chaired by the Group CEO, was established in 2020 and includes members from the main revenue-generating business lines plus key representatives from supporting areas. The Council draws on the expertise of GIB AM. After committing to become a sustainable finance provider, the Council is now working towards enhancements across product/service offerings as well as operations.

### Group sustainability vision

To integrate sustainable finance across our business, providing a range of bespoke products and services





## ESG AND ISLAMIC FINANCE

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At GIB AM, we pride ourselves on our ability to offer clients integration of both Islamic finance principles and ESG factors in our products and investment decision-making process. Recognizing the similarities and differences between these approaches is the first step to integrating these principles effectively.

Islamic finance refers to finance that abides by the goals and objectives of Islamic law (Shariah). For instance, five basic elements are protected. These are life, religion, dignity, intellect and wealth. It avoids the financing of prohibited businesses (such as those built on alcohol, pornography or gambling) and businesses that abide by the Islamic prohibition of *riba* (interest) and excessive *gharar* (sale of risk). Other key Islamic finance principles are profit and loss sharing and asset-backed financing or investment.

ESG investing means considering environmental, social and governance factors in the investment decision-making

process with the intention to enhance long-term performance and competitiveness.

### **Application at GIB AM**

We have been adopting socially responsible investment (SRI) practices since inception, including through compliance with Shariah principles in some of our mandates.

### **Our policy**

Our RI policy sets out our approach to integrate ESG factors and opportunities into our investment decisions while excluding investments in areas that contravene Shariah principles.

### **Bespoke mandates**

Our mandates are fully customizable and are designed to meet client requirements fully. For example, mandates can be customized to track a certain index (such as an ESG or an Islamic index), and exclude certain sectors, industries, companies and countries.

This means we can provide either conventional finance products, Islamic finance products or a blend of the two depending on client requirements.

### **Stewardship**

We believe that good stewardship practices are necessary to ensure that we act in the best interests of our clients. We actively conduct stewardship activities with companies in which we invest within all funds and discretionary mandates where permitted by clients.

### **Comparison between ESG and Islamic Finance**

The similarities and differences between ESG and Islamic Finance are summarized below to highlight the considerations that are taken into account when we integrate sustainability into GIB AM's strategy and practices.



# SIMILARITIES BETWEEN ESG AND ISLAMIC FINANCE

## Shared goal of protecting life

ESG incorporates social aspects such as health, safety and supply chain considerations to avoid adverse effects on life.

Under Shariah, the elements of life are protected.

## Long term value creation for stakeholders

Considering ESG factors is seen as a contributor to the long term investment performance, both by accessing opportunities and by avoiding risk. Such investment performance is achieved whilst also acknowledging other stakeholders such as the environment, workers and communities.

Islamic finance considers long term goals and perspectives. It is based on the principles of risk and profit sharing and is therefore stakeholder focused.

## Exclusionary screening

In ESG investing, exclusionary screening can be used to avoid investments and securities that are not aligned with ESG criteria.

In Islamic finance, screening is conducted both at an industry and financial level. Businesses are excluded that contravene the principles of Shariah such as breweries and casinos. With equity investing, exclusionary screening is further applied based on the proportion of impermissible income and the leverage of the company.

## Role in achieving development

Including ESG factors (such as climate change and diversity and inclusion) in financing and investment decision making is consistent with achieving the SDGs.

The principles of Islamic finance are aligned with the SDGs. Examples of this include directing funds to the real economy, the promotion of risk and profit sharing, the avoidance of excessive risk and speculation, the limiting of debt to asset values and the social finance tools such as waqf.

# DIFFERENCES BETWEEN ESG AND ISLAMIC FINANCE

## Religious foundation

While ESG can be traced back to 18<sup>th</sup> century religious groups, it has evolved to become increasingly secular.

Islamic finance remains religious. For instance, it relies on the exclusion of 'sin' stocks and industries.

## Sale of risk

Initially ESG seemed to have avoided the derivatives market, however both Nasdaq and Eurex have recently launched ESG futures.

Other than a limited number of derivatives structured in a Shariah compliant manner, financial derivatives are prohibited under Islamic finance.

## Best-in-class screening

In ESG investing, best-in-class screening allows investors to invest in the top securities when it comes to ESG credentials.

Such screening is not generally used in Islamic finance.

## Stewardship

In ESG investing, investors may drive issuers or companies to improve their ESG standing. This can either be done individually or collectively.

Such a concept is not generally used in Islamic finance, although there are no issues from a Shariah compliance perspective to steer a company to further improve Shariah compliance or economic performance.



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