INVESTING

ESG: "Doing Well and Doing Good" Is Picking Up Even More Steam

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Over the past few decades, ESG investing—aligning portfolios with investors' values in the Environmental, Social, and Corporate-Governance spheres—became increasingly, then explosively, popular. In the two years alone between year-end 2017 and year-end 2019, U.S. assets tied to ESG offerings surged from $12 trillion to $17 trillion—an incredible 33% of the $51 trillion in total assets under professional management.[1]

On the Right Side of History

While ESG and its predecessors were once confined to screening out stocks like those of tobacco and firearms companies, ESG today (essentially an umbrella term that includes Socially-Responsible Investing, Sustainable Investing, and Impact Investing) encompasses comprehensive portfolio strategies.

In increasing numbers, investors, company executives, money managers, and political leaders are supporting initiatives in areas such as climate change, social justice, inclusiveness, and more-equitable corporate pay. This trend will not be reversed.

Does ESG Sacrifice Performance?

Like all prudent investment, ESG is focused on buying the highest expected returns for the least risk. But is the risk/reward trade-off as good for ESG investments as for traditional options? The verdict isn't final, but a consensus is emerging that ESG keeps pace, or does even better. In fact, many investment managers now incorporate ESG analysis into their risk assessment: The distinction between ESG and other strategies seems to be blurring.

Last year was particularly good for ESG strategies, probably in part because many of the tech-related companies that outperformed had strong commitments to ESG principles: Three out of four Sustainable-Equity funds beat their category averages compiled by Morningstar fund evaluators.[2] The longer-term record is slightly more nuanced. But though some (particularly younger) ESG investors may even be willing to accept lower returns, the evidence suggests they won't *have to* settle for less.

Industry Trends Are Favorable…

Across the industry spectrum, companies are changing their business models in line with ESG realities. This applies to some of the industries traditionally seen as hostile:

- In utilities, for example, American Electric Power, a large supplier, says it plans to reduce its carbon-dioxide emissions by 60% from their levels in 2000 by 2030 (it's almost there already) and by 80% by 2050.[3]
- Many big oil-and-gas producers are investing with surprising speed in solar and wind energy—though oil and gas aren't going to disappear from our economy.
- And in autos, GM surprised the world when it announced a goal of completely phasing out internal-combustion engines in cars, SUVs, and light trucks by 2035 in favor of electric vehicles. The company has also made diversity in its ranks a priority, including appointing a female CEO. Meanwhile, Ford has developed the largest network of public charging stations in North America.

…And Biden Is On Board

With the Democrats in control in Washington, the odds of ESG-driven policies being enacted are high. President Biden has announced that combating climate change is a priority for him, and signaled that his Administration will mandate more-extensive ESG reporting for companies and investment managers, toughen regulations on business, encourage development projects for disadvantaged communities, and promote diversity in the workplace.

He's already brought the U.S. back into the Paris Climate Agreement, and targeted net-zero greenhouse-gas emissions by 2050. He won't fully succeed in all these initiatives, but his goals are good news for ESG investors.

Our Conversation with You

Not every investor is interested in ESG-driven portfolios. But if you are, we have ESG services across all investment objectives, and we can help you build a portfolio that is wholly or partly ESG-directed. In all cases, of course, we're aware that your primary financial goal is assuring security, growth, and income in the years ahead.

1. https://www.etftrends.com/esg-channel/esg-investments-now-make-up-whopping-one-third-u-s-aum/
2. https://www.morningstar.com/articles/1017056/sustainable-equity-funds-outperform-traditional-peers-in-2020
3. https://www.powermag.com/how-esg-investing-is-impacting-the-energy-industry/