



# Four Reasons to Consider ESG Investing

**Responsible Investing (RI) is quickly growing to become a standard. With accelerating commitments by policymakers and business leaders to address environmental, social and governance (ESG) issues, RI continues to attract greater attention in the investing world.**

Increasingly, investors are prioritizing ESG components within their investment objectives. Have you considered integrating ESG factors into your own investing? Here are four reasons why it may be worthwhile:

**1. Many ESG investment options are available.** Until recently, it was more challenging for investors to incorporate ESG factors into their investing. Negative screening was the main approach to RI, which involved avoiding investments that didn't meet ESG standards. With greater attention to ESG issues, this has helped to increase the approaches taken to investing in this space. Last year, the world's largest fund manager announced sweeping changes to position itself as a leader in RI, committing to assessing ESG factors in its investments "with the same rigor that it analyzes traditional

measures such as credit and liquidity risk."<sup>1</sup> Today, there are over \$30 trillion in assets under management (AUM) globally that have a sustainable strategy.<sup>2</sup> In Canada, RI assets account for almost two-thirds of total AUM, or \$3.2 trillion.<sup>3</sup> Investors are now able to create portfolios with ease that incorporate their own personal ESG values.

**2. RI can support and enhance performance.** For many years, there was a long-held view that investors who prioritized ESG factors sacrificed greater returns. However, newer studies suggest that the reverse often holds true — companies integrating these practices into their operations have the potential for improved investment results over the longer term.<sup>4</sup> Why? One reason is because focusing on ESG factors can provide a more comprehensive view of

### Approaches to Responsible Investing

Building sustainability within a portfolio can be done in different ways. Here are some of the approaches taken when integrating environmental, social and governance factors in responsible investing:

**Negative Exclusion** – The exclusion of certain companies or sectors based on their products, business activities or practices.

**Positive Inclusion** – The inclusion of certain companies or sectors based on their positive ESG attributes.

**ESG Integration** – The integration of material ESG factors into analysis and portfolio construction by investment managers.

**Thematic** – A focus on companies that offer sustainability solutions of a particular type or theme, such as solar energy, sustainable food production or low carbon production.

**Impact Investing** – Targeted investing aimed at solving social or environmental problems while providing a financial return.

**Philanthropy** – A focus on ESG outcomes, and not financial returns, as the primary goal.

potential risks and opportunities. For instance, of the S&P 500 companies that filed for bankruptcy between 2005 and 2015, 88 percent exhibited weak ESG ratings for years leading up to the filing.<sup>5</sup> According to Morningstar, in the first four months of 2021, more than 70 percent of funds that invested based on ESG practices across all asset classes beat the returns of funds that didn't have those objectives.<sup>6</sup>

**3. Investors can make a positive impact.** The choices that investors make can send a message to business owners. With new commitments by global policymakers and business leaders, there has been increased transparency, which has led to improved reporting and accountability by companies and their management. By voting with their wallets, investors can continue to hold companies accountable in generating a positive social or environmental impact alongside a financial return. In fact, investor demand is helping to drive ESG changes within the investing industry. In April 2021, the world's largest hedge fund launched a sustainable investing venture in response to ongoing requests, as a growing number of clients indicated that ESG investing was "part of (their) mandate."<sup>6</sup>

**4. Responsible investing may just be the future.** There has been a distinct pivot by governments, policymakers and business leaders in actively supporting and financing environmental and social movements. Last spring, the U.S. committed to cutting greenhouse gas emissions by around 50 percent by the year 2030.<sup>7</sup> U.S. President Biden has pledged almost \$2 trillion to an infrastructure bill that

focuses on shifting to greener energy, and proposed a further \$1.8 trillion to supporting social improvements for American families.<sup>8</sup> A recent Wall Street Journal article suggested that energy companies are now focusing greater attention on renewable projects and less on oil and gas. In 2014, the world's energy companies spent \$735 billion on oil-and-gas extraction; in 2020, this figure was less than half that amount, while spending on wind and solar projects rose to nearly \$220 billion. Total investment in renewable energy projects, electric vehicles and other green efforts exceeded \$520 billion last year, continuing the momentum in the shift to a greener economy. Even the business leaders of some of the largest publicly-traded tech companies have committed to sourcing power from clean energy origins. As one top tech titan stated: "this is where the world is going."<sup>6</sup>

#### How We Can Assist

For many investors, investing is more than just meeting a consistent return. It also involves incorporating personal values to make a positive impact in the world. We can help you to structure your portfolio to integrate ESG factors that are important to you. Please call for a discussion.

1. [blackrock.com/institutions/en-gb/blackrock-client-letter](https://www.blackrock.com/institutions/en-gb/blackrock-client-letter); 2. [forbes.com/sites/newyorklifeinvestments/2020/09/17/3-tips-to-get-started-with-sustainable-investing/?sh=59a85772627f](https://www.forbes.com/sites/newyorklifeinvestments/2020/09/17/3-tips-to-get-started-with-sustainable-investing/?sh=59a85772627f); 3. [riacanada.ca/research/2020-canadian-ri-trends-report/](https://riacanada.ca/research/2020-canadian-ri-trends-report/); 4. [blogs.cfainstitute.org/investor/2019/09/03/esg-investing-can-you-have-your-cake-and-eat-it-too/](https://blogs.cfainstitute.org/investor/2019/09/03/esg-investing-can-you-have-your-cake-and-eat-it-too/); [tiaa.org/public/pdf/ri\\_delivering\\_competitive\\_performance.pdf](https://www.tiaa.org/public/pdf/ri_delivering_competitive_performance.pdf); [forbes.com/just-companies/#2ea3f1c82bf0](https://www.forbes.com/just-companies/#2ea3f1c82bf0); Gunnar Friede, Busch & Bassen, "ESG and financial performance," *Journal of Sustainable Finance & Investment*, 2015; 5. [markets.businessinsider.com/news/stocks/10-reasons-to-care-about-esg-investing-bank-of-america-2019-9-1028557439](https://www.markets.businessinsider.com/news/stocks/10-reasons-to-care-about-esg-investing-bank-of-america-2019-9-1028557439); 6. [wsj.com/articles/green-finance-goes-mainstream-lining-up-trillions-behind-global-energy-transition-11621656039](https://www.wsj.com/articles/green-finance-goes-mainstream-lining-up-trillions-behind-global-energy-transition-11621656039); 7. [cnn.com/2021/04/22/biden-pledges-to-slash-greenhouse-gas-emissions-in-half-by-2030.html](https://www.cnn.com/2021/04/22/biden-pledges-to-slash-greenhouse-gas-emissions-in-half-by-2030.html); 8. [cnn.com/2021/03/31/politics/infrastructure-proposal-biden-explainer/index.html](https://www.cnn.com/2021/03/31/politics/infrastructure-proposal-biden-explainer/index.html).