



financial fitness

What is ESG investing?

IS IT RIGHT FOR YOU?

By Erik Ford



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One of the fastest-growing areas for investing is what is broadly referred to as Environmental, Social and Governance, or ESG, sensitive investing. As individuals become more informed about the world around them and interested in how they can have an impact, seeking out ways to do this with personal investment dollars becomes more appealing.

To start, let us define what is meant by “ESG.” Environmental refers to factors that impact the environment such as fossil fuel usage or conservation, waste management, packaging sensitivities, transportation methods and similar areas. Social sensitivity refers to how a company’s policies and practices affect people, both employees and others. This could range from hiring and promotion practices, product sourcing and advertising targeting. Governance refers to the business and oversight policies and practices of a company. Governance includes board inclusion, responsiveness to shareholders, and if the company has conducted itself ethically and legally. Within these broad ESG areas, there may also be subcategories for further sensitivities.

The history of this movement goes back decades to efforts to divest from South Africa during apartheid, anti-war, anti-smoking and other social movements. Adding to these earlier concerns is an increasing focus on global climate change and human rights. As the issues have become more recognized and investors become more aware of what is in their investment portfolios, the demand has increased greatly for opportunities to make a statement with your capital, but importantly, to be able to do

so without sacrificing returns. What started out as a targeted movement by religious and charitable organizations, educational endowments and some public pensions, has expanded to the average investor. As individuals realize that they can try to make a difference and investment managers respond to the demand, the growth has been impressive. According to Morningstar assets under management dedicated to ESG strategies grew 38% from 2016 to 2018 and Barron’s reported inflows in the first half of 2020 matched that for all of 2019.

An early concern for ESG investments was returns. Would limiting your investments to pursue socially conscious goals result in compromised returns? That may have been a valid concern early on, but with greater demand has come greater sophistication and competition. In the early days, it was about eliminating certain companies from a fund or portfolio, whereas now it is more about targeting successful companies that also meet ESG guidelines. Companies are much more interested in making themselves appealing to the growing ESG demand. Organizations such as Morningstar have developed sustainability and ESG ratings and rankings to help investors compare ESG investment alternatives and identify investment candidates to pursue a personal ESG strategy. There are also less restrictive investments available, such as no fossil fuels, no guns or no alcohol and tobacco, rather than a full ESG focus.

So, can individual investors make a difference with ESG investments? In reality on an individual basis, one person’s portfolio

choices will not move the needle. However, as the movement has grown and assets under management targeting ESG goals have exploded, investment managers and institutional investors increasingly focus of these objectives. As with many other things, there is power in numbers, especially when those numbers are represented by dollars. Corporate management and shareholders have increasingly focused on addressing these issues and publicizing what they are doing.

While there may not be uniform consensus on the issues broadly covered by the ESG descriptors or the relative priority for addressing them with your personal investments, the opportunity to do so is available to the individual investor. Thanks to both increasing social consciousness and the information readily available in the internet age, you may be able to pursue both your social and investment objectives at the same time.

Stay safe and healthy and continue to support our local businesses.

Erik Ford is the owner of Ford Wealth Management LLC in Glen Ellyn, IL. He is a CFP® certificate holder as well as an Accredited Investment Fiduciary®.

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