

Environmental, Social, and Governance Investing

Yankee Model Investment Club

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What Is It?

- Environmental, Social, and Governance (ESG) investing is an approach for putting money into companies that try to make the world a better place
- Also known as: sustainable investing, responsible investing, social responsible investing
- Main components
 - Environmental = how the company deals with nature
 - Social = how the company manages relationships with employees, customers, communities
 - Governance = how the company manages top leadership, internal controls, shareholder rights

Types of Criteria

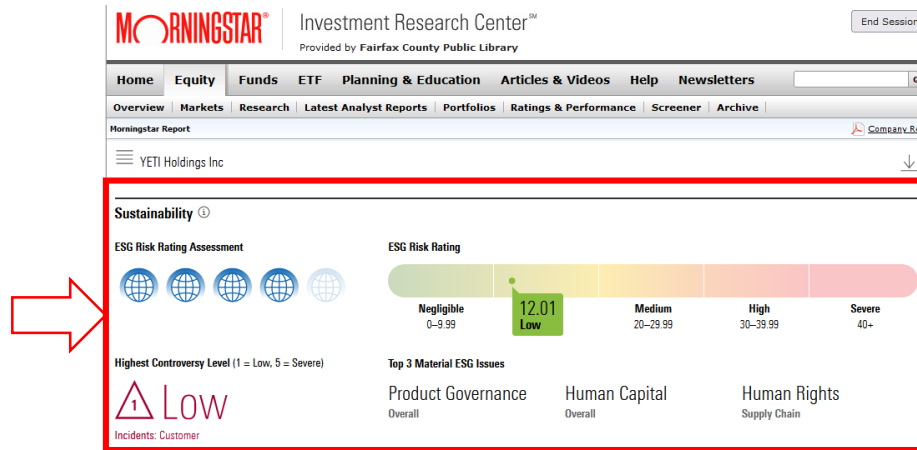
- Environmental
 - Energy use, renewables
 - Pollution controls
 - Treatment of animals
 - Risks: does it own contaminated land, hazardous waste sites?
- Social
 - Does it hold suppliers to same value set?
 - Donate portion of profits to community?
 - Employee health and safety
 - Fair wages
- Governance
 - Accounting methods
 - Avoids conflict of interest
 - Avoids illegal practices

Does Anyone Care?

- Yes! Investment into assets with ESG criteria grew from \$12 trillion in 2018 to \$17.1 trillion in 2020
- With climate change effects, more investors may want to focus on companies that are protecting against impact from environmental disasters
- May also allow investors to avoid companies that pose a greater financial risks due to there unsavory business practices (eg BP oil spill, Volkswagen emissions)

How Can I Use It In My Research?

- Research companies, like Morningstar, offers ESG ratings



- <https://www.msci.com/research-and-insights/esg-ratings-corporate-search-tool> has some ratings
- ESG compatible mutual funds – different funds may weigh different criteria differently or focus more on particular components over others, so research thoroughly
- Informal method: just think of what practices a candidate business participates in and determine if it meets your own criteria

Sources

- <https://www.investopedia.com/terms/e/environmental-social-and-governance-esg-criteria.asp>
- Morningstar analysis report for YETI