Investing in ESG Makes Money

written by Melissa (Mel) Sanderson | October 18, 2022

Have you noticed that there are a couple of weird things about the spate of recent public temper tantrums by elected officials about ESG matters, especially in the US? Weird thing number one: the gripers all are politicians, so far universally from the Republican Party, which USED to be the pro-business party. Second weird thing: most businesses aren't wasting time griping, they are adapting – and finding that doing so makes money.

Yes, you read that right – done properly, embracing ESG metrics can make money – for companies and investors – while improving livelihoods and helping to slow the impacts of climate change.

An article in the Toronto Star this month entitled *World's Biggest Carbon-emissions cutters – including TransAlta and CP Rail – also make money, new report find*s is a clear example that across industries, companies willing to invest in changing their behavior and reducing their environmental impact, especially in the key area of carbon reduction, can and do maintain their bottom lines and in some cases have increased their profitability due to cost reductions inherent in new technologies. This in turn, of course, leads to increased benefits to shareholders and other stakeholders. This is substantiated by a Morningstar study in which the group concluded that investors can build a global portfolio of companies with positive ESG attributes without compromising returns.

Likewise, research by MSCI classifying funds by their ESG exposure shows a clear and growing investor preference for funds and companies with strong ESG compliance. The MSCI study grouped funds into buckets ranging from AAA (fund is exposed to companies tending to show strong or improving management of financially relevant ESG issues and which may be more resilient to disruptions arising from ESG events) to CCC (fund is exposed to companies not demonstrating adequate management of ESG risks and which may be more vulnerable to disruptions arising from ESG events). MSCI concluded that over $1 trillion has moved from funds on the lower end of the scale to the higher end over the last decade – a movement which appears to be accelerating. In studying the profile of investors, the MSCI analysis found that 88% of high-net worth millennials are actively reviewing the ESG impact of their investment holdings, while 89% of the same group expect their financial professional to do a deep dive into a company's ESG factors and history with ESG issues before recommending an investment opportunity.

Conversely, *not* taking action to do more on ESG issues leads to substantial negative consequences for companies, investors and stakeholders.

A recent study by the Harvard Business Journal cited insurance giant Swiss Re saying that *not* acting on climate will destroy around 18% of global GDP by 2050. If you stop and think about that for a moment, it's a staggering statement of risk. But the Harvard wonks took that a step further, examining the diverse consequences of climate change in which some areas, such as Siberia, might find growing seasons extended, but in other places (such as Phoenix, my home) cities could become too hot to be livable while some island nations will be swallowed by rising seas. This means, they concluded, that the downside risk for certain regional and (in the case of islands) national economies could be 100%, not 18%.

There's a third weird thing about the political opposition to ESG. If investors want to put their money into companies engaging in climate-positive actions, and if companies are actively revising their business models to be more climate friendly – what exactly is the problem that these politicians supposedly are concerned with?

When you break down the principles of ESG into their most basic components, it simply amounts to doing the right things for people and the planet.

What’s wrong with that?