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# What is ESG?

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## ESG – Environmental, Social, & Governance



### Environmental

Conservation of the natural world

- Climate change and carbon emissions
- Air and water pollution
- Biodiversity
- Deforestation
- Energy efficiency
- Waste management
- Water scarcity



### Social

Consideration of people & relationships

- Customer satisfaction
- Data protection and privacy
- Gender and diversity
- Employee engagement
- Community relations
- Human rights
- Labor standards



### Governance

Standards for running a company

- Board composition
- [Audit committee](#) structure
- Bribery and corruption
- Executive compensation
- Lobbying
- Political contributions
- Whistleblower schemes



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# ESG integration

ESG integration looks at risks and opportunities revealed by the analysis of environmental (E), social (S), and/or governance (G) issues that are material for a company or country. **It is often more complex than negative screening, though a majority of people still think of ESG investing as simply a negative screen.**

## Negative screening (known as "Exclusion")

Exclude from your portfolio companies and sectors that go against sustainability and have a negative impact on the environment and society.



## Best in class

A positive selection approach, in which you select a company with outstanding sustainability performance among its peers.

## Sustainable investing strategies

## Thematic investing

A positive selection approach, in which you invest in companies or investment products of certain sustainable themes.



## ESG integration

Factor ESG considerations into traditional financial analysis to holistically evaluate the risk-return of investment companies and products, as well as their long-term value.

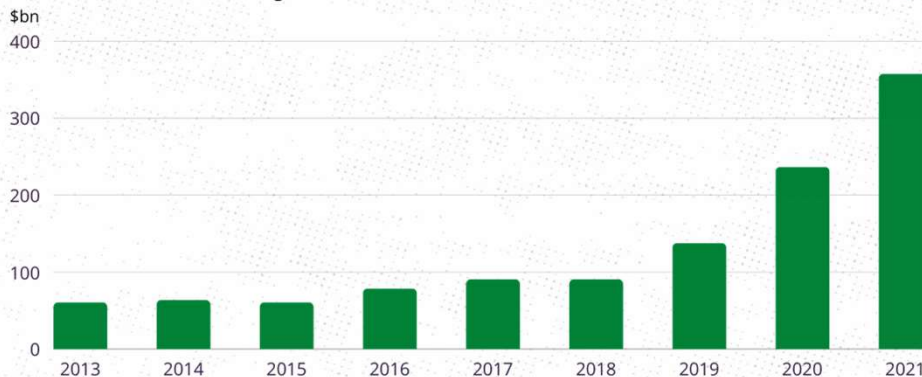


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# The ESG Movement

## ESG funds gain momentum

U.S. sustainable fund assets grew to \$357 billion in December 2021



Source: Morningstar Direct



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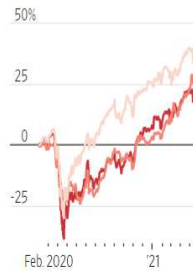
# ESG considerations

**There is no single agreed-upon definition of ESG or best practice for ESG integration.**

Therefore, integrating ESG analysis into the investment process should be done in a manner that best fits each individual firm, its resources, and its clients. However, a set of common best practices are beginning to emerge as professional investors increasingly integrate ESG factors into their analyses and investment processes.

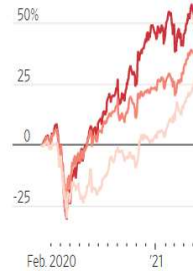
Sustainalytics ESG rating category

Average Good  
Poor



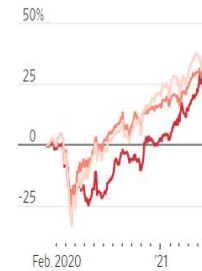
MSCI ESG rating category

Average Good  
Poor



Refinitiv ESG rating category

Average Good  
Poor



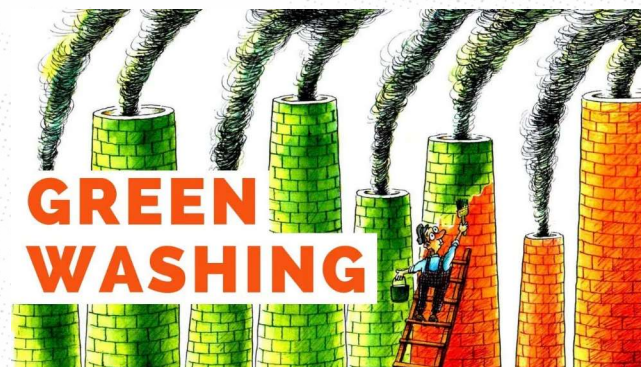
Source: Wall Street Journal analysis of ESG scores from Refinitiv, MSCI and Sustainalytics; Dow Jones Market Data



# Beware of Greenwashing

Greenwashing is the practice of using marketing and PR tactics to over amplify your ESG efforts for the purpose of gaining greater favor from consumers, investors, employees, etc.

In response to increased investor activity around ESG and the potential for greenwashing, the SEC has formed a taskforce aimed at investigating potential misconduct related to companies' sustainability claims.



# ESG Outlook

## ■ Challenges

- Inconsistent Practices
- Inadequate Screening Controls
- Misleading ESG Claims

## ■ Regulation

- SEC
- State
- Industry

## ■ Mitigation vs. Adaptation

