Impact of ESG Investing

Moderator: Timothy Dunn, CFA, Managing Partner and Chief Investment Officer, Terra Alpha Investments LLC

Falko Paetzold, University of Zürich, Center for Sustainable Finance and Private Wealth, explained the importance of investors causing an impact. There are 2 approaches to impact creation: engagement in secondary markets, and providing capital to inefficient markets. He defined impact in the realm of investing. For example, investors can cause impact by making an investment that decreases carbon dioxide emissions. Owning footprint is not the same as causing impact. The mechanisms necessary for achieving investor impact include capital allocation, active ownership, and indirect impacts. There is little known about the investment impact of sustainable investing at the present, especially through exclusion and ESG integration. We should think more about investor impact than company impact.

Jim Hawley and Himani Phadke, TruValue Labs, discussed the current landscape of ESG investing. Jim contextualized it within the UN Sustainable Development Goals (SDGs) and the Sustainability Accounting Standards Board (SASB). There are too many ESG ratings and rating systems with low correlation. Himani explained how they developed an analytical framework by combining TruValue Labs’ data with SASB framework and SDGs that clearly define world environmental and social externality. Mapping links corporate ESG actions to specific SDGs. Their Asset Allocation Framework determines the potential of an industry to have an impact on a specific SDG goal or target through ESG integration. Material ESG issues are those for which financial incentives exist for companies to perform well.

Q and A: Timothy Dunn, CFA, Managing Partner and Chief Investment Officer, Terra Alpha Investments LLC, asked the panel how we find intersections between society needs and business opportunity if SDGs often present a cost, rather than opportunity, for businesses. Jim said that there is a fiduciary duty for large scale investors to be cognizant of long-term externalities in SDGs. Falko discussed how 50% of global wealth is controlled by 0.7% of the population, and those are the people with decision-making power. It is difficult to figure out which SDGs map to the influence of those individuals.

Audience Q&A focused on the downside risks of ESG. The panel responded by noting that both SASB and SDGs give framework for identifying opportunities and business cases. Companies must think about externalities as operational inefficiencies. Falko noted that banks have a vision for sustainable investing, but can’t talk about it fluently with clients, so they don’t do it because it is a risk and high workload for them. Investors are more worried about returns than impact. When asked about due diligence for ESG information, Jim noted that it depends on both data that is publicly available and on investors establishing a relationship with a company to get more proprietary information if possible. Falko mentioned that many companies make much more
sustainability efforts than they even report. Falko also emphasized that impact investing is making up for what lacks in policy and regulation.