

# ESG

**Environmental, Social and Governance.** These three factors measure the sustainability and societal impact of a company. Investment professionals use such criteria to help analyse a company and its future financial performance. So why these factors?

**97%** of institutional investors in Europe are interested in ESG investments<sup>1</sup>

**74%** of global investors plan to increase their ESG ETF allocation over the next year

56% of those in the UK say they are interested in making a sustainable investment now or in the future - but that figure rises to **71%** for millennials.<sup>4</sup>

Stocks of sustainable companies tend to significantly outperform their less sustainable counterparts<sup>5</sup>



**76%** of global CEOs say trust will be critical to competitiveness in the next five years; they say businesses should be making a far greater contribution to achieving a sustainable global economy and society by 2030<sup>2</sup>

**21-50%** In five years, almost one in five global investors said they would allocate between 21% and 50% of their portfolio to ESG funds<sup>3</sup>

EU Investors poured a record **€120bn** into sustainable investment options in 2019.<sup>5</sup>

## Environmental

How does a company use natural resources?  
What is the effect of its operations on the environment?

- Energy use
- Waste
- Pollution
- Natural resource conservation
- Treatment of animals.

### Why this matters...

Of Europeans: **94%** think environmental protection is important.<sup>7</sup>

**518 global institutional investor organisations** are pressuring **161 companies** to set **30 climate measures and targets** which they will be publically analysed by.<sup>8</sup>

**90%** of single-use plastic drinks bottles by 2025 and producers need to help cover the costs of clean-up for:

- food containers, packets and wrappers (such as for crisps and sweets)
- drinks containers and cups
- tobacco products with filters (such as cigarette butts)
- wet wipes, balloons, and lightweight plastic bags.<sup>9</sup>

#### Companies with a better ESG track record:

- produced higher three-year returns,
- were more likely to become high-quality stocks,
- were less likely to have large price declines,
- and were less likely to go bankrupt.<sup>10</sup>

### 'Greenwashing'

– when a company conveys a false impression or provides misleading information about how their products are environmentally friendly.<sup>11</sup> **Eco-Friendly, Gentle, Cruelty Free, All-Natural, Organic** are buzzwords such companies may use.

"It takes 20 years to build a reputation and five minutes to ruin it."

Warren Buffett



### Examples

In 2019, a famous Danish toymaker started producing pieces made from plant-based polyethylene, and are aiming to make all of their toy pieces sustainable by 2030.

Source: Forbes: 'The World's Most Reputable Companies For Corporate Responsibility 2019', 17 Sept 2019



In 2011, a global sports and leisure group became the world's first company to publish the cost of the carbon emitted and water used throughout its supply chain. It helped identify ways for the company to reduce water, energy and fuel consumption by 60% resulting in potential savings of millions of dollars.

Source: BBC News, 16 May 2011



## Social

'Social' represents a company's strengths and weaknesses in dealing with social trends, labour and politics. A company paying attention to long-term societal trends may benefit from shifts in customer preferences.

- Labour practices
- Product quality issues such as safety concerns
- Data security
- Supply-chain issues
- Geopolitics

### Why this matters...

**1 Gigaton**

of emissions may be saved if suppliers increased their renewables purchasing by just 20 percentage points (11% at present to 31%)<sup>12</sup>



**£5.2 bn**

– annual costs of workplace injury in the UK for the 2018/19 year.<sup>13</sup>



#### Financial Impact from forest-related risks



**70%**

of the world's cobalt - used to power smartphones, laptops and electric cars - is mined in Democratic Republic of Congo. Congolese families are reportedly suing some of the world's largest tech companies, over the use of child labour in mining.<sup>14</sup>

### Examples

A UK based food and drink chain offered 50% off to NHS workers and their families for the first couple months of the pandemic while also donating food to hospitals for doctors and nurses. This helped consumers view them in a more positive way.

Source: Metro.co.uk, 18 March 2020



A data breach in early 2018 involved the private and personal data of more than 50 million people taken from a social media site. This resulted in the social media giant's value falling US\$120bn in 24 hours – the largest single day fall in the history of the US market.

Source: Theverge.com, 4 April 2018



## Governance

Investors must think 'Why should I trust this company?' and 'What decisions are they making behind closed doors?' Governance factors indicate the rules and procedures for countries and corporations.

- A company's leaders/management strength
- Executive pay
- Internal controls
- Shareholder rights
- Diversity

### Why this matters...



Wall Street's biggest underwriter<sup>15</sup> of initial public offerings in the US will no longer take a company public in the US and Europe if it lacks a director who is either female or diverse.

A company which **employs a diverse range of employees of different ethnicities and age groups** will likely win over more consumers than a company that does not.

Public companies with all-male boards based in California now face a **\$100,000 fine** under a new state law.



**3** the number of seats women must hold on a company's board to create a "critical mass," which can lead to better financial performance.<sup>16</sup>

Companies with more diverse management teams have

**19%** higher revenues due to innovation.<sup>17</sup>



### Examples

Bank executive bonuses around the time of the financial crisis eroding consumer trust.



The diesel scandal. A popular automaker admitting to cheating on emissions tests by installing software to detect when the cars were being tested. The scandal cost the company billions of euros, and most importantly impacted the trust they had with their customers and shareholders.

Source: BBC News, 10 Dec 2015



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14. FT: 'Congo, child labour and your electric car', July 2019; The Guardian: 'Exploitation in focus', 16 December 2019  
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16. Catalyst: 'Workplaces that work for women', 13 March 2020  
17. BCG Henderson Institute: 'How diverse leadership teams boost innovation', 23 Jan 2018

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