

# ESG & Impact Investing

Leadership Cohort

Week 2

# Talking Points

- What is ESG (Environmental, Social, Governance)?
- What is Impact Investing?
- Where do corporations report related data?
- Myth-busting: Impact investing lowers returns
- Successful ESG Fund examples
- The future of ESG and Impact Investing
- Where and how can you learn more?

# Environmental, Social, Governance



## *Environmental*

Climate  
change

Resource  
scarcity

Pollution  
control

## *Social*

Labor  
practices

Product  
safety

Data  
security

## *Governance*

Board  
diversity

Executive  
pay

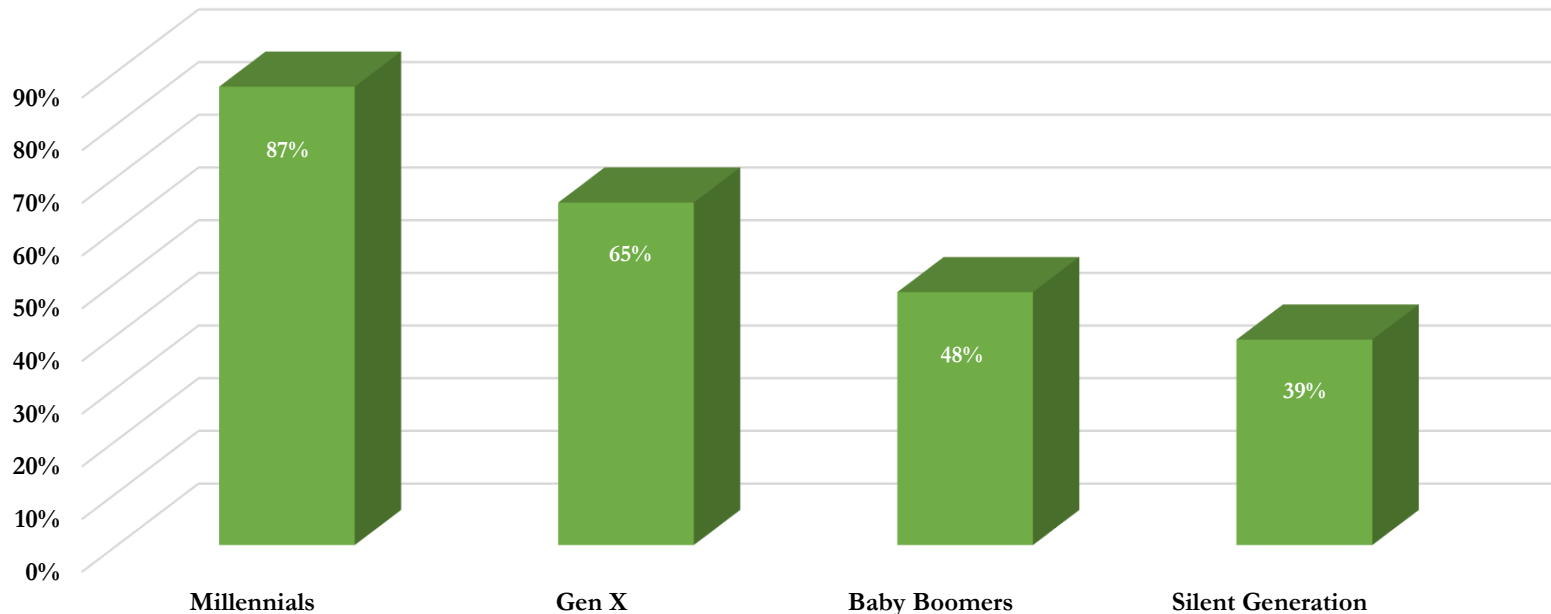
Business  
ethics

- An emphasis on these issues will ultimately drive sustainable long-term success, creating value for shareholders and stakeholders alike
- Investors now apply non-financial factors such as these to portfolio analysis in an effort to flag potential risks, as well as growth opportunities
- Many corporations release ESG data on an irregular basis and in an unstandardized manner
- ESG issues can often be measured, but it is difficult to assign a monetary value as it relates to investing
- As importance of these issues continues to catch the public eye, corporations will be under careful watch

# Impact Investing

- “Screening” process of streaming capital towards companies who create social and environmental benefits
- Specialized focuses such as affordable housing, timberland preservation, and accessible healthcare
- Mainstream investors have normally avoided this practice out of downside fear
- Venture capitalists and non-governmental organizations (NGOs) are currently the biggest players

Share of HNWs interested in impact investing in the U.S. 2018, by generation



Source: U.S. Trust, Bank of America

# ESG Reporting

FIGURE 1

## ESG-mandated assets could make up half of all managed assets in the United States by 2025

■ ESG-mandated ■ non-ESG-mandated

Professionally managed assets in the United States (US\$ trillion)



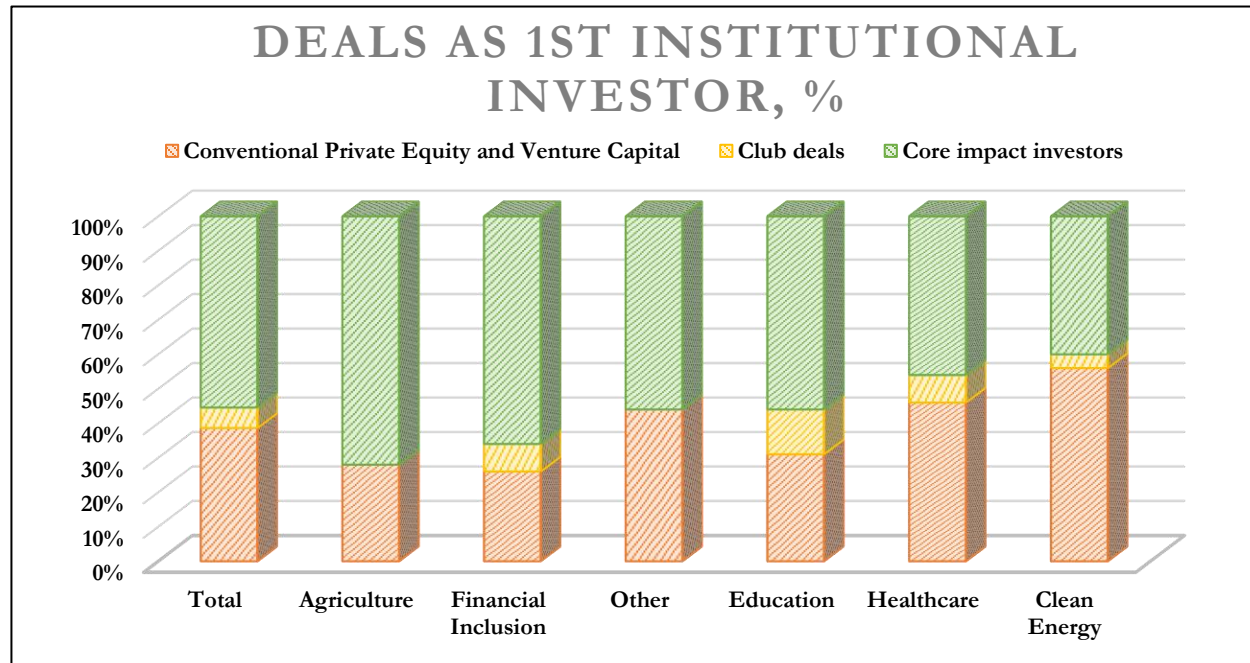
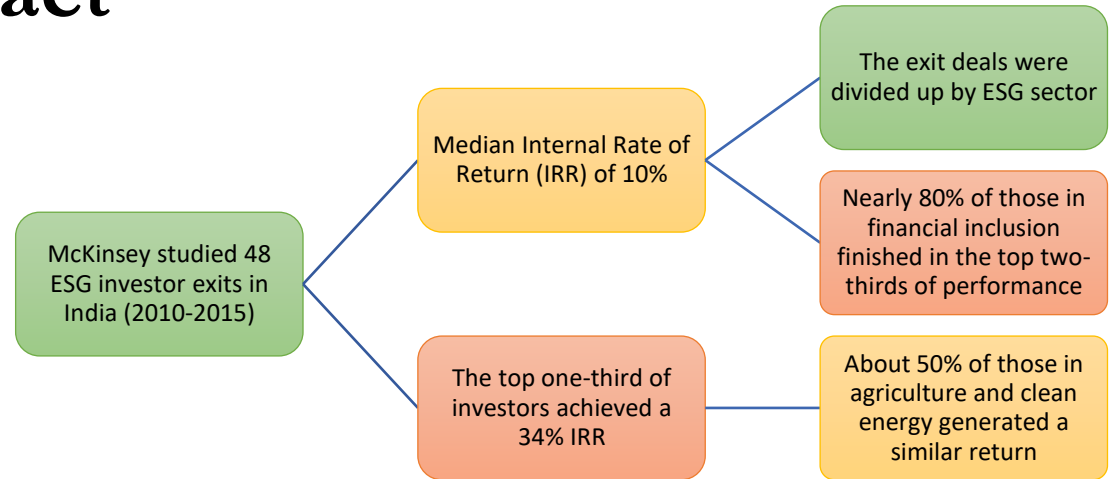
Share of ESG assets in overall professionally managed assets in the United States



- ESG Metrics are usually not mandatory when it comes to financial reporting
- Today, more and more corporations make disclosures in their annual report to address their efforts in promoting ESG
- It is also common to issue a standalone sustainability report
- Sustainable Accounting Standards Board (SASB) and Global Reporting Initiative (GRI) are working to develop standards and categorize issues to facilitate the investment process
- Defining the “materiality” of certain ESG factors
- Example: Nike [“Purpose Moves Us”](#) Report

Source: U.S. SIF Foundation Data through 2018; Deloitte Center for Financial Services analysis through 2025

# Returns on Impact Investing



- Stereotype that socially-conscious investments offer weak returns and take too long to generate those returns
- Belief that such investments cannot be scaled adequately to create attractive returns
- Non-profits play a key role on the “ground level” in distributing access to ESG products and services
- Impact Investors can strategically place money in non-profits
- This provides the capital needed to scale-up operations and attract industry talent

Graph Source: Impact Investors Council (IIC) survey covering investments over the years 2010–16; VCCEdge; McKinsey analysis

# Prominent ESG Funds

- As of August 2020, assets under management that center around ESG Principles surpassed \$1 trillion
- Corporate leaders have made a more conscious commitment to green recovery during the pandemic
- 40 traditional funds converted to sustainable funds between April and June
- BlackRock CEO noted an influx of investors interested in areas like renewable energy

Seeking a team of students to compete in the NDIGI stock pitch competition

## Five largest US sustainable funds

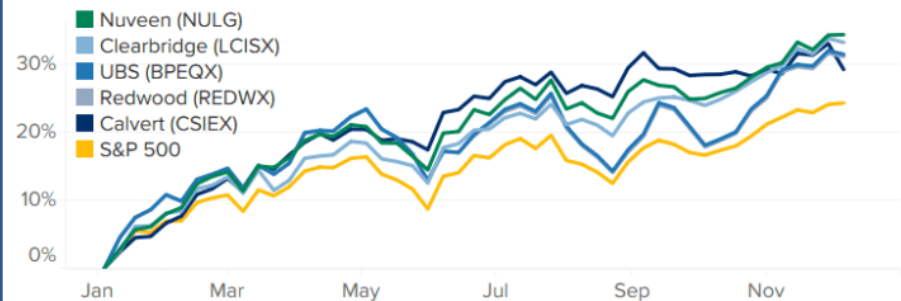
Name	Ticker	AUM	Expense Ratio	2019 Performance
Parnassus Core Equity	PRILX	\$18.2B	0.63%	19.7%
Vanguard FTSE Social Index	VFTNX	\$7.1B	0.12%	29.6%
Parnassus Mid-Cap	PARMX	\$4.9B	0.99%	21.9%
Putnam Sustainable Leaders	PSLGX	\$4.8B	0.67%	24.2%
TIAA-CREF Social Choice Equity	TISCX	\$4.8B	0.17%	22.5%

SOURCE: Morningstar. Data is through 12/12/2019.



## Sustainability-focused funds beating the market

Year to date returns for five funds and the S&P 500



SOURCE: FactSet. Data is weekly through 12/6/2019.



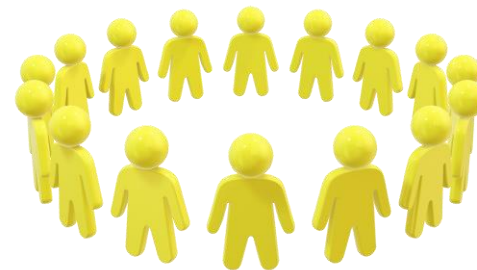
# Outlook on ESG and Impact Investing

- Growing relevance in corporate structures
- Biggest hurdle comes in categorizing issues and monetizing their impact
- While sustainability reports are currently filed, the goal is a system-wide set of standards for disclosure on financial statements
- ESG practices can drive long-term value creation for investors and stakeholders
- Impact Investing is quickly growing traction in the investor community as recognition of this value creation increases

“The one thing that is very clear in this COVID world ... [is that] stakeholder capitalism is only going to become more and more important, and the companies that focus on all their stakeholders — their clients, their employees, the society where they work and operate — are going to be the companies that are going to be the winners for the future.”  
—Larry Fink, CEO of BlackRock



# How can I learn more?



## Here at Notre Dame:

Impact Investing Guest Speaker Series

MGTO 30510: Social Entrepreneurship

Coming in Spring 2020: Impact Investing

## Career Paths:

Private Wealth Management

Equity Research

Portfolio Management

Non-profit work

## Internship Opportunities:

Accion Operations Internship (Washington D.C.)

- Two ND kids worked here in the past
- Portfolio Management or Business Development roles

enFocus Internship

- Socially driven consulting firm in South Bend
- Click [here](#) for more information

Huron Foundation

- Well connected with VP Brendan Maher (FISH)
- Visit their [Career Page](#)

Social Entrepreneurship Corps

- Operated out of the [Pulte Institute](#) with opportunities to work abroad
- Contact Greg Van Kirk for more information

Visit [Net Impact Job Board](#)

# Other Resources

## [Global Impact Investing Network \(GIIN\)](#)

- Leading authority on impact investing
- More access to training, news articles, and research

## [Principles for Responsible Investment](#)

- United Nations initiative to encourage investing in renewable energy and sustainable agriculture.

## [GRESB](#)

- The ESG Benchmark for the sustainability performance of real assets

# Sources

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- ***McKinsey Impact Investing Report***
  - <https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/a-closer-look-at-impact-investing>
- ***Nike Impact Report (FYE 2019)***
  - <https://purpose-cms-preprod01.s3.amazonaws.com/wp-content/uploads/2020/02/11230637/FY19-Nike-Inc.-Impact-Report.pdf>
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