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Are Green Investing Decisions Now More Than Just Your Conscience Speaking?

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For some years, interest, and investment in ESG and SRI has been growing and is now one of the fastest growing sectors. But is it more than just a good deed and has it become a serious investment?

In its infancy, there was a justifiable belief that SRI came at a cost in returns, a charitable act if you like, but the sectors rapid development shows that this is no longer the case and ESG no longer need hurt financial performance. One way to invest green is in ETF's and in the first 7 months of 2020 there was a record $38b in new money into ESG themed ETF's and topped $100b in total assets for the first time and the ETF growth is mirrored in asset gains in sustainable mutual funds.

One institution expects that figure to balloon to $1.3t in 10 years. Funds initially looked to avoid so called sin stocks, but now are moving to positive screening approaches which score high on ESG performance criteria, but there are issues, as is usual with a relatively new sector, and those investors seeking to integrate Environmental, Social and Corporate Governance (ESG) factors into their decision-making process, have many barriers. Ratings and measurements of ESG factors are still being developed and there is no real conformity compared to more developed sectors. In the small and midcap area there is a lack of disclosure and a lack of meaningful measurement, meaning opportunities are hard to find. There has been a lack of agreement on key terms, practices, and measurements, often subjective and difficult to compare. Add in the lack of long term and reliable data to run analysis, makes it difficult to make fully informed investment decisions.

There is a concerted move to create uniformity to further aid investors' clarity and understanding to enable more confidence and growth. The leaders of the Big Four accounting firms have come together in an unusual joint initiative to unveil a reporting framework for Environmental, Social and Governance standards. In the meantime though, there are biases on size, geography and industry as the need to finance these developments naturally go to bigger, richer companies in wealthy developed nations.

The current pandemic has put a brighter spotlight on the need to tackle ills such as climate change, income equality and diversity. Although the economic damage being wrought will put back funding of developments many years. With ESG related items more and more in the news and with the population more aware, ESG is quickly gaining momentum. Millennials are said to have a greener side to them and they now make up half of the global workforce. Devastating bush fires in California and Australia and serious flooding in many countries have become standard fodder for the news wires and have caused billions of dollars and unquantifiable heartache to those affected.

Add in the ongoing economic 'climate' of easy money and non-existent interest rate yields available to investors, which is likely to continue for some time, and you have a perfect alignment of conditions to boost even further the funds flowing into green products.

Another area that has been becoming increasingly visible is that of tax avoidance with the spotlight initially on big household names such as Google, Apple, Starbucks but recently President Trump's tax bill's, according to the NYT, has caused much dismay and disgust at the ability of the wealthy and large corporations to pay much less tax. Although cases like these are deemed smart by some Moral Money expects this to be a key ESG them in the future.

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