

# Being Green is Not Always Easy in Investing

by Christine Moriarty

The environmental, social and governance (ESG) investment space is changing and fast. There is a significantly more interest in the area than there was thirty years ago when I first entered the industry. As attention grows, a generation of millennials are leading this trend, but there is more to the greening of investments than meets the eye. Going mainstream may be critical to ESG investment growth but how do you sort through the plethora of mutual funds and investment options to discover how to invest your money?

For perspective, there has been a strong presence of socially responsible investments (SRI) in the marketplace for many decades. Yet, the prevailing feeling of traditional investment firms and their leaders is that this was a niche that was not worth paying attention to. So, the small number of dedicated mutual fund companies and SRI investment firms carried on unnoticed by many. They were not seen as a threat or of interest to standard financial investment firms.

For example, one of my first bosses, pulled out my recommendations for SRI mutual funds for a client during our prep session. He said SRI was a fad and not appropriate for these high net worth clients. A few days later, he bolted down the hallway towards my cubicle. That same boss had stepped out of that client meeting to find me because the clients had asked for SRI options, and he wanted to present the ones he had ditched two days earlier. I quickly educated him and handed him the supporting documents. I was still not privy to attending the meeting with my recommendations.

That was where the SRI industry sat—on the periphery—rather than a player in the financial world. Today's industry shift is happening due to demand rather than internal motivation from inside the industry. The financial industry is listening and focused on millennials. Why? These businesses know that \$30 trillion will be changing hands in the near future as the generational wealth shifts to the Millennial generation.<sup>1</sup> Is this for real? Does the industry as a whole care about ESG? Maybe.

Though the industry has been making inroads over the years, I am apprehensive from what I have been seeing. While interest in SRI (or ESG as it is more often called) has been growing over the years, now there is a whole generation who is interested in investing this way. This is good and bad for a former niche investment area that has caught the attention of the bigger investment firms.

Why am I concerned, even as this important ESG area grows? First, millennials are a powerful lobby and great for bringing attention to this issue,



yet they are also inexperienced investors who may not be prepared to truly understand their options and what is presented to them. They may be so swept up in the fact that ESG investing is an option, that they do not ask enough other questions. They may want to be green investors, but their naiveté may not serve them to accomplish their goals.

Second, ESG and SRI investing are not well defined terms, opening up the area to confusion. To add to this confusion, some additional new investment terms have entered the mutual fund industry: ESG consideration, ESG informed investments, impact funds and a rating by Morningstar a leader in mutual fund rating for sustainability.<sup>2</sup>

Third, according to the U.S. Forum for Sustainable and Responsible Investment, sustainability and impact investing has reached \$12 trillion in the U.S. – up by 38% since 2016.<sup>3</sup> How does the average investor decide in a time when SRI is growing? Or is it?

There is a tendency in the industry to “greenwash.” This means taking traditional investments and repackaging the group of stocks as ESG investments.<sup>1</sup> Because of the lack of standard screens, large investment firms can design “new” funds and

label them as being informed by ESG considerations. Some investors will see this label and gladly invest without doing their due diligence.

Fourth, the firms that are selling the ESG products to investors may have a product that invests in truly responsible companies who follow ESG guidelines. However, that does not mean the firm itself is sustainable. More often than not, investment firms fall short on the governance side of socially sound investing. They have few women in leadership positions and even fewer minorities. So does investing with a firm that does not align with your overall investment goals make sense when they are making money from your investment dollars?

Fifth, each investor has to make personal choices that fit their own idea of ESG investing. This may expand or limit their options as they seek to align their investments with their personal choices. Will your funds be invested in energy? Guns? Tobacco? With many more common and accessible mutual funds using

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and integration of ESG, the line becomes blurred as to what is truly focused on the sustainable future the investor envisions and what is the product the business wants to sell. The busy investor has to look beyond the label.

Finally, there are the reasons that businesses are touting their products. Is it for the purpose of supporting a better future for all or is it to better the future of the company? Many are just rising to the ESG occasion under the guise of serving the client but are not really on board themselves.

In a recent speaking engagement, I was in the corporate boardroom with the company’s

investment group. The focus was building ESG and marketing and selling their new SRI team to investors. I was a speaker to support this type of investing. There were thirty participants in the room. I asked a simple question and the answer was pretty telling.

“Who here has ESG investments?”

Not one hand went up. No one was supporting ESG with their own dollars yet was being asked to sell the idea and ESG investments. The landscape may be changing as far as attention and focus for the larger institutions. Yet, this is a product not a passion for most companies.

That struck me as a perfect example of an industry out of touch with what is going on out in the world and not ready for the truly rooted greening of America sought out by the new generation of investors. Business as usual for them. One more product to understand, learn about, and sell.

Still on the periphery are investment organizations that have been committed to this area for decades. They started not with the goal to draw in millennials, but because of a passion and a belief in SRI investments. They set the stage and created the basis for this shift that is being built on by large financial institutions.

### What is one to do?

Here is a quick list whether you are evaluating your slow growing retirement investments or finding the right manager for your recent large payout:

1. Understand your own investing priorities. What issues matter most to you? What do you absolutely not want to invest in? Don't invest until you are clear on these personal choices.
2. Take the time to ask questions and dig deeper before you place your money with a mutual fund or an investment manager. You can learn the depth of their commitment beyond the gloss of the latest ESG terms and investment returns. Taking the time to learn more will align your investments with your goals.
3. Seek out tried and true investment companies with a mission in place. The companies that have been in the SRI space for the past twenty years have weathered the market swings, the negative press and kept at their ESG mission. They have the knowledge, expertise and understanding of personal preferences to hold your

money to a higher standard, whether you are investing your first thousand in a mutual fund or a million in a purely ESG firm. **S**

### Footnotes

1. <https://www.pwc.com/us/en/industries/financial-services/library/managing-millennial-money.html>
2. <https://www.morningstar.com/articles/922371/more-funds-are-formally-considering-esg-in-their-investment-processes>
3. <https://www.forbes.com/sites/neilyeoh/2019/10/26/sustainable-investing-heres-what-millennials-need-to-know-in-the-u-s/#3848f88d1e8a>
4. <https://www.forbes.com/sites/neilyeoh/2019/10/26/sustainable-investing-heres-what-millennials-need-to-know-in-the-u-s/#3848f88d1e8a>



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# Solutions



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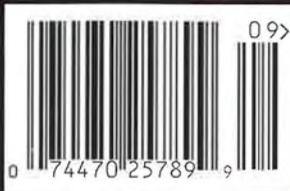
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