

ESG Investing

September 29, 2020

ESG investing is used synonymously with **sustainable investing or socially responsible investing**. While selecting a stock for investment, **the ESG fund shortlists companies that score high on environment, social responsibility and corporate governance, and then looks into financial factors.**

Features of ESG Investing

- Fund houses say modern investors are re-evaluating traditional approaches, and look at the **impact their investment has on the planet.**
- As a result of this paradigm change, asset managers have started **incorporating ESG factors into investment practices.**
- There are over 3,300 ESG funds globally and the number has tripled over the last decade. In India, as of now there are **three schemes – SBI Magnum Equity ESG, Axis ESG and Quantum India ESG Equity – following the ESG investment strategy.**
- Companies will be forced to follow better governance, ethical practices, environment-friendly measures and social responsibility, due to gaining momentum of ESG funds.
- **Environmental risks created by business activities** have actual or potential negative impact on air, land, water, ecosystems and human health.
- Company environmental activities considered ESG factors include **managing resources and preventing pollution, reducing emissions and climate impact**, and executing environmental reporting or disclosure.
- Social risks refer to the impact that companies can have on society. They are addressed by **company social activities such as promoting health and safety**, encouraging labor-management relations, protecting human

rights and focusing on product integrity.

- **Corporate governance is all about integrity and honesty of the management.** This aspect also has the potential to adversely impact investors' wealth creation prospects in the long run.
- ESG investing is all about investing ethically for financial wellbeing in the long run.

Similar Types of Investing

- **Socially Responsible Investing** started in the 1970s as investors mostly used **negative screening methods** to exclude investments in guns, tobacco, gambling, adult entertainment and other vices. Investing in these stocks was seen as **supporting morally bad or socially irresponsible businesses.**
- ESG investing, though sometimes considered synonymous with SRI, is its own class of investing. ESG investing is the integration of environmental, social and governance factors into the **fundamental investment process.**
- **Impact investing** is considered the most advanced of the three kinds of sustainable investing. It involves **generating a measurable environmental and social impact alongside financial returns.**