

Wealth Planning **Update**

The A-to-Z of ESG Investing



Understanding the terminology behind environmental, social and governance investing.

A little over ten years ago, there was a renewed focus on addressing global environmental, social and governance (ESG) challenges through investment. Though these priorities have been considered by investors for years, the term ESG gained most of its traction over the past decade. The goal of ESG is to call attention to the risks and opportunities present in the operations of every industry within the global economy.

Broadly speaking, ESG stands for:

- **Environmental** factors, including energy sources and use, animal treatment, conservation objectives, emissions and more
- **Social** factors, such as how an operating entity interacts with its surrounding community, its supply chain and its workforce
- **Governance**, including the oversight, guidance and leadership of an operation, from advisory board composition and financial stewardship to corporate by-laws and more

If you were among the pioneers in this area, you have witnessed the growth of an expanding network that has enabled you to increasingly participate in this evolving marketplace. With that expansion, a lexicon of new and related terminology has emerged that may require some definition. Below, we attempt to demystify some of the lingo that is foundational to ESG investing.

Prominent ESG investing styles

Impact investing—Making a measurable difference

Impact has come to mean many things to different investors. The Global Impact Investing Network (GIIN) defines impact investments as those made into companies, organizations and funds that intend to generate measurable social and environmental impact alongside a financial return. A different interpretation holds that allocating capital in any way to affect positive change around ESG concerns is an impact investment.

Socially responsible investing (SRI)—Evolving beyond social issues

Socially responsible investment is believed to have origins in the 1960s and 1970s, as communities took a greater interest in the health and safety of goods being consumed. Subsequently, certain investors began demanding greater transparency and corrective action by corporations and government policymakers. Though it might be inferred that the term mainly relates to social matters, it has evolved to include broad ESG considerations. In fact, some investors have rebranded the SRI acronym to stand for sustainable, responsible and impact.

Shareholder engagement—Influencing change through participation

Shareholder engagement is the practice of making equity investments in a company in order to become a partial owner and influence the company's leadership to make changes, in this case related to ESG matters. There are many styles to this investment approach:

- Friendly activism, where you collaborate with company management to affect positive ESG change
- Proxy voting
- Shareholder resolutions
- Direct negotiation with management around central topics

Shareholder engagement may also occur at the public level, where government policymakers are engaged to enact regulatory change around ESG matters.

The work of four ESG-focused organizations



United Nations Sustainable Development Goals (U.N. SDGs)—Setting specific targets with global benefits

In 2017, the United Nations unveiled 17 sustainable development goals. The U.N. defines these SDGs as a universal call to action to end poverty, protect the planet and ensure that all people are able to enjoy peace and prosperity.

Each of the SDGs includes specific targets, some of which are meant to be reached by 2030, along with indicators intended to help focus efforts, monitor progress and promote accountability. The SDGs represent challenges that, while global in nature, are sufficiently common that nations worldwide can apply them.

Certain ESG-focused mutual funds are identifying the SDGs that their portfolio companies address. In this way, investors are able to direct capital toward those goals.



Global Impact Investing Network (GIIN)—Fostering worldwide thought leadership

The GIIN is a global nonprofit organization established to drive thought leadership in impact investing. It has been instrumental in accelerating the development of the industry by building a critical infrastructure and developing education and research methods. Through networks, events, investor training programs and industry research, the GIIN provides a platform for investors to exchange knowledge, highlight innovative investment approaches and build an evidence base for the industry.



United Nations Principles for Responsible Investing (U.N. PRI)—Guidelines for institutional investors

The PRI is an independent institution supported by the United Nations and is considered to be the world's leading proponent of responsible investment. It is an international network that aims to help its 1,800 investor signatories, which include many of the world's largest institutional investors, to incorporate ESG factors into their own investment decisions. Working together with investors and global policy makers, the PRI has developed the following six principles as a voluntary and aspirational set of guidelines for developing a more sustainable global financial system.

- We will incorporate ESG issues into our investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the principles.
- We will each report on our activities and progress towards implementing the principles.



Sustainability Accounting Standards Board (SASB)—Defining metrics for ESG outcomes

The SASB, established in 2011, is an independent board that sets standards for the disclosure of material ESG information by public companies in their mandatory filings. The SASB advisory board consists of roughly 20 investors, including the asset management divisions of major financial institutions as well as significant institutional investors. Access to accurate and relevant information has been a key challenge for investors seeking to analyze the ESG outcomes of their investments. The SASB is meant to address that deficiency.

Putting ESG investing to work in your portfolio

How can you find companies, mutual funds and exchange-traded funds that support an ESG investing approach? One way is to check the sustainability ratings based on research conducted by **Sustainalytics**.

You'll find the ratings on many mutual fund and ETF reports from **Morningstar** as well as on 2,000+ companies through **Yahoo Finance**.

The ratings can help you evaluate how well companies are managing ESG factors and find sustainable funds.



What started as socially responsible investing decades ago has evolved into a global movement of investors seeking to make measurable change by the ways in which they direct capital. A consequence of this evolution is a need for a common understanding of the rapidly expanding terminology that relates to ESG. With proper definition around these terms, investors will have increased confidence to grow and scale ESG globally, and perhaps redefine investing altogether.

For additional information on incorporating ESG investing into your portfolio, speak with your financial professional.



Jon Finney is the Director of Traditional Research at BMO Family Office, an integrated wealth management provider that serves ultra-affluent individuals, families and family offices across their tax, estate, investment, philanthropic, risk and family capital needs.

Jon joined the firm in 2008 and has more than 15 years of experience in the financial services industry. Jon oversees the research and approval of the third-party traditional investment managers that BMO Family Office recommends to our clients.

Feel confident about your future

BMO Wealth Management—its professionals, its disciplined approach, its comprehensive and innovative advisory platform—can provide financial peace of mind.

For greater confidence in your future, call your BMO Wealth Management Advisor today.

www.bmowealthmanagement.com



The information and opinions expressed herein are obtained from sources believed to be reliable and up-to-date, however their accuracy and completeness cannot be guaranteed. Opinions expressed reflect judgment current as of the date of this publication and are subject to change.

This information is being used to support the promotion or marketing of the planning strategies discussed herein. This information is not intended to be legal advice or tax advice to any taxpayer and is not intended to be relied upon. BMO Harris Bank N.A. and its affiliates do not provide legal advice to clients. You should review your particular circumstances with your independent legal and tax advisors.

Estate planning requires legal assistance which BMO Harris Bank N.A. and its affiliates do not provide. Please consult with your legal advisor.

BMO Wealth Management is a brand name that refers to BMO Harris Bank N.A. and certain of its affiliates that provide certain investment, investment advisory, trust, banking, securities, insurance and brokerage products and services.

BMO Private Bank is a brand name used in the United States by BMO Harris Bank N.A. Member FDIC. Not all products and services are available in every state and/or location.

Investment Products are: **NOT FDIC INSURED—NOT BANK GUARANTEED—NOT A DEPOSIT—MAY LOSE VALUE.**

C11# 8213864 © BMO Financial Group (2/19)