

ESG investing

Aligning your values with investment opportunities.

What motivates you to invest in a company? Do you believe the company should align with your beliefs or lifestyle? Are you more concerned with the environmental or social risks associated with investing in a particular company?

When it comes to investing with environmental, social and governance (ESG) concerns in mind, there's a variety of ways to implement that mindset within your investment portfolio.

ESG investing may be the preeminent term to describe sustainable investing today, but a wide range of terms have been used for this investment approach over the years.

For example, "Impact," "Values-Based" and "Socially Responsible" investing align with one's personal convictions when building a portfolio. Yet sustainable investing also could refer to layering in another set of risk evaluations when analyzing corporate equities and fixed income securities. These are typically categorized under ESG. Today, more than 90% of S&P 500 companies now publish ESG reports in some form, as do about 70% of Russell 1000 companies.¹

So, what exactly is ESG investing? It not only considers investment returns, but also—and often more importantly—the social, governance, and/or environmental implications of those investments.

ESG investing aims to help foster positive change in the world through the lens of one's personal values. This could include investing in companies or funds that strive to improve human rights, promote racial justice or gender diversity, further consumer protections, or combat environmental concerns. These types of investments are growing and, assuming 15% growth, ESG assets may reach more than \$50 trillion by 2025.²

Since it can be hard to decipher the news about ESG investing, the following is a breakdown of some frequent ESG misconceptions.

Is ESG investing a new trend?

No. For centuries, religious investors worldwide have considered the impacts of their financial decisions. An early example occurred in 1758 when the Quakers at the Philadelphia yearly meeting prohibited its members from engaging in the slave trade.³

Modern sustainable fund strategies have been in existence since the early 1970s. Many events in the 1980s also led to a surge in investing aimed at combatting political or corporate actions such as anti-apartheid campaigns in South Africa, and environmental catastrophes like Chernobyl or the Exxon Valdez oil spill.

Most recently, the U.S. Securities and Exchange Commission (SEC) proposed regulating ESG-related disclosures,⁴ such as climate risks and greenhouse gas emissions, indicating that this could be important criteria for investors going forward.

In addition, many investors in Europe already focus on sustainability. European regulators will soon mandate even stricter requirements for companies to disclose the environmental and societal impact of their business practices as well.⁵

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Is ESG investing only for environmentalists?

No. One study conducted by Morgan Stanley in 2019 found that 84% of investors were interested in products that helped them align their investments with the issues they considered most important.⁶ ESG investing has gained popularity among women and younger generations, especially Millennials and Gen X, where issues surrounding climate change and social justice really resonate.

The “G” or governance factor in ESG is already a universal topic for due diligence. Many investors are concerned about governance issues such as ethics, anti-corruption, fair boards and executive comps.

The war in Ukraine and its humanitarian tragedy has heightened the importance of using investing with social issues in mind as well.

Can ESG investing go beyond excluding certain investments?

Yes. Though negative screenings, like excluding tobacco or alcohol, have been used as a traditional sustainable investing strategy, that same strategy can also focus on positive screenings. Investors can select companies with positive ESG attributes, like being minority-owned or environmentally focused.

Alternatively, you might choose to invest with a specific issue in mind, such as the need for clean water, which factors in the “E” (environmental) in ESG, or supporting women in leadership, which highlights the “S” (social) in ESG.

Ethical investing takes a much more personal approach and may vary based on personal views, values, beliefs and religious or political affiliations.

If you’re interested in adopting an ESG investing approach, BMO Wealth Management works with you to understand your unique interests within ESG matters. From there, BMO can help you identify whether philanthropy, market rate investing, or a combination is the best fit.

Will ESG investors outperform the market?

The jury is still out. ESG ratings are designed to measure how a company and its earnings may fare during a global transition to a low-carbon, resource-efficient world. Their intention is to evaluate potential, not to predict the future.

Responsible investing is evolving, and experts are still gathering and evaluating the data. Although the research is not definitive, there’s a growing agreement among experts that sustainability is important for companies to stay competitive and resilient.

One study suggests that companies with diverse leadership generate improved financial performance and stronger innovation.⁷ Other studies note that companies with high ESG scores tend to secure capital at a lower cost.⁸

Ethical and well-managed companies also may be better positioned to handle and overcome risks growing within their organization, or risks within the financial system, such as the financial crises in 2008 or 1987.⁹

How should you start investing with ESG in mind?

As a first step, start with “why” you want to invest with ESG in mind. Is it because you care deeply about the well-being of the world and society as a whole, and desire to make an impact with value-driven investing?

Remember, ESG investing is not a one-size-fits-all strategy; your values don’t have to match your neighbor’s. In fact, some aspects of ESG investing may speak louder to you than others, so why not explore your priorities before getting started?

To help you learn more about how you align with ESG investing, BMO created the [MyESG quiz](#)¹⁰. It’s designed to help you determine if you’re an ESG Motivated, ESG Ready, ESG Pragmatic, or ESG Skeptic investor.

From there, you can decide if an ESG-branded product should be added to your portfolio. If you’re unsure, [contact BMO](#)¹¹ for more information.



BMO’s proven record in responsible investing has helped create solutions and funds across the world, so know you are in capable hands.



Jenny Scotkovsky, CFA®, is a Director, Portfolio Manager with BMO Private Bank. Jenny provides customized investment management and advisory solutions for high-net-worth individuals, families and organizations, including endowments and foundations, as part of an overall personal wealth management strategy.

How can BMO help you get started with ESG investing?

By harnessing the experience of a BMO financial professional, BMO can help you establish your investor profile, create a roster of companies to explore, and help you decide which investments align with your ESG values. BMO partners with data providers like Morningstar and Thomson Reuters to conduct robust analysis of the sustainability of one's current investments compared to their sustainability goals.

BMO financial professionals can select from a wide range of investment vehicles including mutual funds, exchange traded funds, separately managed accounts, and even private market offerings with a sustainability focus. Greenwashing concerns are addressed through BMO's due diligence to best evaluate funds that use ESG criteria in their investment process.

As a fiduciary, BMO Wealth Management works to understand how risks might affect investments. Our ESG analysis is another layer of risk management to mitigate ongoing and future risks, while at the same time identifying investment opportunities.

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¹ McKinsey, "Does ESG really matter and why?" August 10, 2022. <https://www.mckinsey.com/capabilities/sustainability/our-insights/does-esg-really-matter-and-why>

² Bloomberg, "ESG May Surpass \$41 Trillion Assets in 2022, But Not Without Challenges, Finds Bloomberg Intelligence," January 24, 2022. <https://www.bloomberg.com/company/press/esg-may-surpass-41-trillion-assets-in-2022-but-not-without-challenges-finds-bloomberg-intelligence/>

³ Corporate Knights, "A short history of responsible investing," May 11, 2021. <https://www.corporateknights.com/responsible-investing/a-short-history-of-responsible-investing/>

⁴ Reuters, "Upcoming SEC climate disclosure rules bring urgency to ESG data strategy planning," January 30, 2023. [https://www.reuters.com/legal/legalindustry/upcoming-sec-climate-disclosure-rules-bring-urgency-esg-data-strategy-planning-2023-01-30/#:~:text=Last%2520March%2520the%2520U.S.%2520Securities,ESG\)%2520issues%2520among%2520public%2520companies.](https://www.reuters.com/legal/legalindustry/upcoming-sec-climate-disclosure-rules-bring-urgency-esg-data-strategy-planning-2023-01-30/#:~:text=Last%2520March%2520the%2520U.S.%2520Securities,ESG)%2520issues%2520among%2520public%2520companies.)

⁵ Brookings, "The coming of age of sustainability disclosure: How do rules differ between the US and the EU?" June 6, 2022. <https://www.brookings.edu/articles/the-coming-of-age-of-sustainability-disclosure-how-do-rules-differ-between-the-us-and-the-eu/>

⁶ Morgan Stanley, "Sustainable Signals: Individual Investor Interest Driven by Impact, Conviction and Choice," 2019. https://www.morganstanley.com/pub/content/dam/msdotcom/infographics/sustainable-investing/Sustainable_Signals_Individual_Investor_White_Paper_Final.pdf

⁷ Harvard Business Review, "Institutional Investors Must Help Close the Race and Gender Gaps in Venture Capital," August 27, 2020. <https://hbr.org/2020/08/institutional-investors-must-help-close-the-race-and-gender-gaps-in-venture-capital>

⁸ Priem, Randy and Gabellone, Andrea, The Impact of a Firm's ESG Score on Its Cost of Capital: Can a High ESG Score Serve as a Substitute for a Weaker Legal Environment? (November 25, 2022). Available at SSRN: <https://ssrn.com/abstract=4286057> or <http://dx.doi.org/10.2139/ssrn.4286057>

⁹ College for Financial Planning, ESG Performance, Risk, and Rating Metrics. 2018-2021.

¹⁰ <https://bmoapps.com/myesg>

¹¹ <https://uswealth.bmo.com>

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