

SUSTAINABLE ESG INVESTING

KHLOÉ U. KAROVA

CERTIFIED FINANCIAL PLANNER™

APRIL 2020

KHLOE@MODERNCAPITALCONCEPTS.COM

Securities offered through LPL Financial, Member FINRA/SIPC. Financial planning offered through Modern Capital Concepts, a Registered Investment Advisor and a separate entity from LPL Financial. Modern Capital Concepts and LPL Financial are not affiliated with any entities listed herein.

1-841557





HOW CAN WE MAKE THE WORLD A BETTER PLACE?

DESCRIBE YOUR IDEAL WORLD

COMPANIES

1. Living wage
2. Treat workers fairly
3. No #MeToo
4. _____
5. _____
6. _____

CITIES

1. Better public transportation
2. Gun-free schools
3. _____
4. _____
5. _____

NATURAL RESOURCES

1. Reduce energy consumption
2. Recycling
3. Stricter emissions standards
4. _____
5. _____

What are examples of companies that fit your criteria?



IF WE DON'T INVEST FOR A SUSTAINABLE FUTURE, WHAT IS THE ALTERNATIVE?

China has made major progress on air pollution. Wuhan protests show there's still a long way to go



Analysis by **James Griffiths**, CNN

① Updated 1:56 AM ET, Thu July 11, 2019

CCTV

BEIJING RESIDENTS FACE COSTLY FIGHT AGAINST POLLUTION

CNN
FTSE ▲ 5.57

@HolmesCNN



RESOURCE MANAGEMENT IS CRITICAL FOR BUSINESS



WORLD
RESOURCES
INSTITUTE

Climate Energy Food Forests Water Cities

BUSINESS

ECONOMICS

FINANCE

GOVERNANCE

Cape Town's "Day Zero" Water Shut-Off

Running out of water, Cape Town, South Africa, is counting down to the day it will be forced to shut the taps serving homes and businesses. WRI Water Director Betsy Otto warns that without better water risk measurement and management, "Day Zero" could be coming to other cities.

[READ MORE](#)



CHALLENGE OF POPULATION GROWTH

<https://youtu.be/RKWuj1OIDPo> (2 minute video)

**70% OF THE WORLD'S
POPULATION**



**2% OF THE EARTH'S
SURFACE**



SMART CITIES

Futurism

<https://futurism.com/heres-a-look-at-the-smart-cities-of-the-future/>



Internet of Things (IoT)

Artificial Intelligence (AI)

Autonomous Vehicles

Offshore Wind Farm



2017 CEO Turnover Report: Lowest Total Since 2004; 11 Out Due To Sexual Misconduct

"The #MeToo movement, so inspiring to women and men who have endured abuse, particularly at work, also inspired companies. Not only are many companies reevaluating their sexual harassment policies and procedures, but many are operating under a zero-tolerance policy, especially regarding the heads of their organizations," said Challenger.



<http://www.challengergray.com/press/press-releases/2017-ceo-turnover-report-lowest-total-2004-11-out-due-sexual-misconduct>

SUSTAINABLE INVESTING IS

Bringing capital to businesses that solve
important problems and play a part in the
future we want to create.



SOCIALLY RESPONSIBLE & SUSTAINABLE COMPANY EXAMPLES

Cisco Systems

“We measure our success by how we positively impact people, society, and the planet.”

Measurable impact

Our goal is to make a measurable impact on people, society, and the planet—and we are well on the way. We’re expanding access to quality education worldwide. We contribute millions of dollars annually to social change agents who are addressing global challenges. And our efforts to make Cisco environmentally sustainable help preserve the planet.



1.6 million people have obtained new jobs due to their participation in Cisco Networking Academy



154 million+ people positively impacted, as reported by our nonprofit grantees



41% drop in greenhouse gas emissions (compared to our fiscal year 2007 baseline)



SOCIALLY RESPONSIBLE & SUSTAINABLE COMPANY EXAMPLES

Salesforce

Puts People and Planet First

“Companies can be powerful platforms for change.” – Suzanne DiBianca, EVP Corporate Relations, Chief Philanthropy Officer, Salesforce

The Environment is a Key Stakeholder

At Salesforce, we consider the environment to be one of our key stakeholders and we are committed to harnessing our culture of innovation to improve the state of the world. We leverage the power of our people and our products to reduce the impact that we and our customers have on the planet. Together we can create a more sustainable future.



Vision

We're committed to a sustainable future for all



Clean Cloud

Delivering an environmentally-friendly customer success platform



Operations

Integrating sustainability into everything that we do



People

Leveraging our employees to create a greener world



SOCIALLY RESPONSIBLE & SUSTAINABLE COMPANY EXAMPLES

Microsoft

“Come as you are. Do what you love.”

“Maximizing the contribution of every individual allows us to infuse diverse thought as a natural part of the way we innovate.”

The screenshot shows the Microsoft Global Diversity and Inclusion website. At the top, there's a navigation bar with links for Microsoft, Office, Windows, Surface, Xbox, Deals, Support, More, Search Microsoft.com, and Sign in. Below the navigation is a header bar with links for Global Diversity and Inclusion, Home, The Business of Inclusion, Inside Microsoft, Training, Beyond Microsoft, and Stories. The main content area features a large image of three diverse people (two men and one woman) sitting at a table and laughing. To the left of the image, the text "The Business of Inclusion" is displayed, followed by a paragraph about creating an environment that helps Microsoft capitalize on diversity. A pink banner at the bottom has links for "Follow our diversity journey >" and social sharing options (Share, LinkedIn, Facebook, Twitter). Below this, a section titled "Our Global Diversity & Inclusion: Staying aligned with Microsoft's vision" is shown, with three columns: "Microsoft's vision" (describing the company as a productivity and platform leader), "Our strategy" (maximizing business impact through diversity and inclusion), and "Learn more" (with a bulleted list: Empower our people, Transform our culture, Delight our Customers).

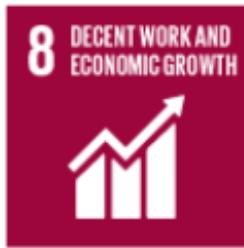


HOW CAN BUSINESS FURTHER SUSTAINABLE DEVELOPMENT?

un.org/sustainabledevelopment/takeaction/



SUSTAINABLE DEVELOPMENT GOALS 17 GOALS TO TRANSFORM OUR WORLD



SUSTAINABILITY IS GROWTH WITHOUT COMPROMISING OUR FUTURE

“At its essence, sustainability means ensuring prosperity and environmental protection without compromising the ability of future generations to meet their needs.

A sustainable world is one where people can escape poverty and enjoy decent work without harming the earth’s essential ecosystems and resources; where people can stay healthy and get the food and water they need; where everyone can access clean energy that doesn’t contribute to climate change; where women and girls are afforded equal rights and equal opportunities.”

Former UN Secretary-General Ban Ki-Moon

What are examples of companies that damage the environment?



WHAT'S THE DIFFERENCE?

Sustainable Investing encompasses different styles.



HOW DOES ESG DIFFER FROM SRI?

ESG investing is an evolution of the SRI concept, but with a different approach. Though some use ESG and SRI interchangeably, a distinction can be drawn based on how these concepts are incorporated into the portfolio management process and what investors are attempting to achieve.

The SRI process typically involves excluding certain investments from the portfolio — and that decision may be made without consideration to the portfolio return — making it an “allow/disallow” decision.

In addition, an SRI investor’s primary goal is to disassociate from an activity; changing corporate behavior is usually a secondary consideration at best. In contrast to the “allow/disallow” behavior, ESG methods give a company a score, which can be used along with other data points when deciding to buy a company. ESG investors may be more committed to enacting change through their investments.



ESG: MEASURING GOOD

ESG investing seeks to evaluate companies in the following areas of risk: **environmental, social, and governance.**

Environmental. Environmental factors relate to how a company views itself with regard to environmental conservation and sustainability. Types of environmental risks and opportunities include a company's energy consumption, waste disposal, land development and carbon footprint, among others.

Social. Social factors deal with a company's relationship with its employees and vendors. Risks and opportunities can include (but aren't limited to) a company's initiatives related to employee health and well-being, and how supplier relationships align with corporate values.

Governance. Corporate governance factors can include the corporate decision-making structure, independence of board members, treatment of minority shareholders, executive compensation and political contributions, among others.

http://thinkingaloud.aberdeen-asset.us/en/thinkingaloudus/the-bigger-picture/elements-esg?utm_medium=social&utm_source=linkedin&utm_campaign=esg-campaign-groups-linkedin_linkedin_social_us_en&utm_content=sponsored&cn=esg%202018



“WHAT GETS MEASURED GETS MANAGED”

PETER DRUCKER

ESG methods give a company a score, which can be used along with other data points when deciding to buy a company or a fund.

Some investors believe that if companies with higher ESG scores have better stock performance over long investment time horizons, more companies will adopt measures to improve their scores.

Nick Epley of the University of Chicago Booth School of Business suggests that companies that do good for women, the environment and obey the law, tend to treat shareholders better.

Excerpt from the Economist:

an impact. The data have got board members, shareholders, customers and employees talking about pay. Now that the numbers are out, executives are keen to “win”, says one consultant. Iris Bohnet, an economist at Harvard University, has noted a similar effect caused by awarding hygiene ratings to restaurants and putting energy-efficiency labels on white goods.

XY > XX

Forcing employers to reveal their gender pay gaps is making them think

Despite its flaws, the new obligation could spark a change in employment practices

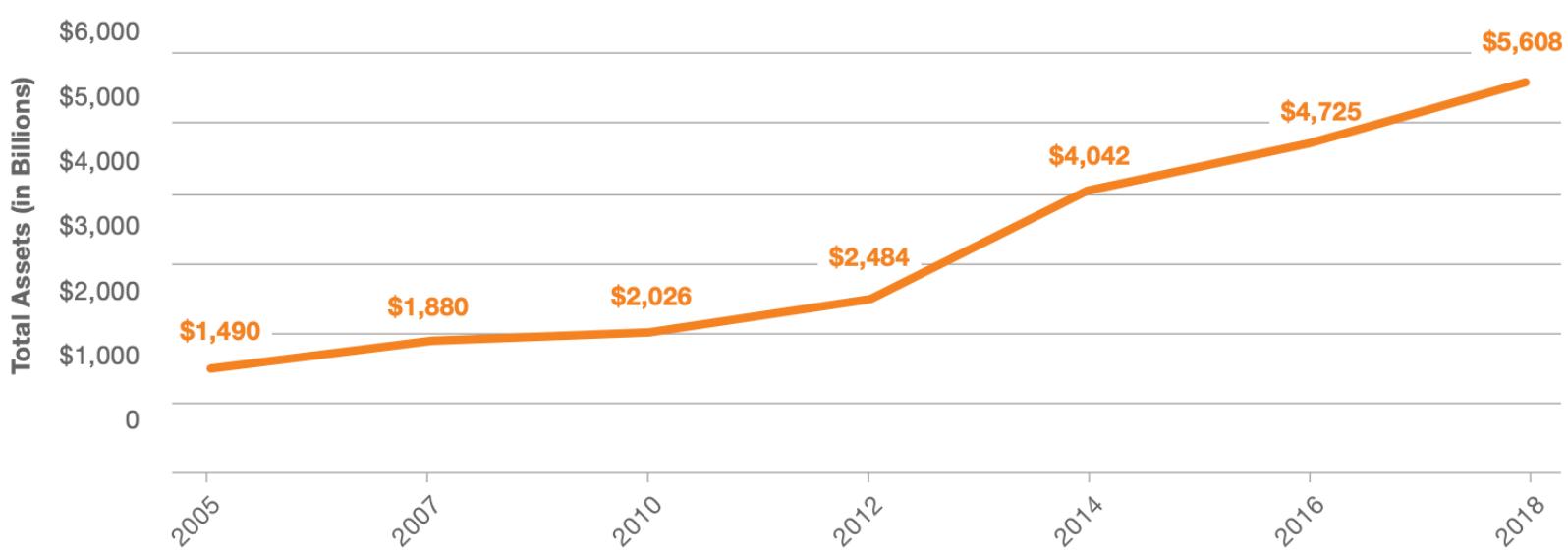


DEMAND FOR ESG IS GROWING



Sustainable and Impact Investing— Institutional Investors 2018

Growth of ESG Incorporation Reported by Institutional Investors 2005–2018



[https://www.ussif.org/files/2018%20Infographic%20institutional%20investors\(1\).pdf](https://www.ussif.org/files/2018%20Infographic%20institutional%20investors(1).pdf)



ESG GETTING EASIER TO MEASURE

As of 2016, the United Nations Principles for Responsible Investment (UNPRI) had 1,500 signatories with \$60 trillion in assets under management who had committed to six principles ‘recognizing the materiality of environmental, social, and governance (ESG) issues.’*

An increasing number of companies have been disclosing sustainability information, growing from less than 30 in the early 1990s to more than 7,000 in 2014.

*<https://www.unpri.org/about>

PRINCIPLE 1

WE WILL INCORPORATE ESG ISSUES INTO INVESTMENT ANALYSIS AND DECISION-MAKING PROCESSES.

PRINCIPLE 2

WE WILL BE ACTIVE OWNERS AND INCORPORATE ESG ISSUES INTO OUR OWNERSHIP POLICIES AND PRACTICES.

PRINCIPLE 3

WE WILL SEEK APPROPRIATE DISCLOSURE ON ESG ISSUES BY THE ENTITIES IN WHICH WE INVEST.

PRINCIPLE 4

WE WILL PROMOTE ACCEPTANCE AND IMPLEMENTATION OF THE PRINCIPLES WITHIN THE INVESTMENT INDUSTRY.

PRINCIPLE 5

WE WILL WORK TOGETHER TO ENHANCE OUR EFFECTIVENESS IN IMPLEMENTING THE PRINCIPLES.

PRINCIPLE 6

WE WILL EACH REPORT ON OUR ACTIVITIES AND PROGRESS TOWARDS IMPLEMENTING THE PRINCIPLES.



DOES SUSTAINABLE INVESTING HURT PERFORMANCE?

Some investors and financial professionals are skeptical of sustainable investing because, intuitively, shrinking one's investable universe could make outperforming the market more difficult. However, researchers from the University of Oxford and Arabesque Partners aggregated the results of 2 studies globally and reports on the impact of sustainability on corporate performance and found the following:

- 90% of the studies conducted showed that sound sustainability standards can lower a company's cost of capital, allowing these companies to grow with lower costs and greater potential shareholder returns.
- 88% of the research showed that solid ESG practices result in better operational performance.
- 80% of the studies showed that good ESG practices positively influence a company's stock price. In other words, investors should not think of sustainable investing as shrinking the investment universe, but rather focusing on companies within that universe with the best prospects.

https://lplfinancial.lpl.com/content/dam/lpl-www/documents/sustainable_investing.pdf



INNOVATION OCCURS ON THE FRINGES

Will sustainable firms perform better financially in the long run?

- Organic food used to be niche now it's mainstream.
- Fuel economy used to be a new thing for autos.
- It is not profits versus the planet. It makes sense for business to adapt to changing societal norms and environmental factors.
- Sustainable strategies could be a source of competitive advantage.
 - Energy efficiency
 - Reduce waste and recycle
- Environmental factors are not disconnected from business fundamentals, but it takes years to build this. Not easy to see benefits of investments immediately.
- With socially responsible and ESG investing styles a long-term investment time horizon is key.



THANK YOU

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

Stock and mutual fund investing involves risk including loss of principal.

khloe@moderncapitalconcepts.com
WWW.MODERNCAPITALCONCEPTS.COM

