Companies That Will Benefit From Sustainable Tailwinds in 2021

By Mark Peters, CFA, *Managing Director*, and Jude Erondu, *Associate*

Driven by a genuine convergence of goals, environmental, social, and governance ("ESG") investing has continued to gain positive traction and mainstream popularity among individual and institutional investors who aspire to **have the best of two worlds – an investment that generates positive performance and value alignment.** As 2021 unfolds, investors have an opportunity to potentially benefit from the tailwinds of Biden's administration Build Back Better economic plan, with an expected boost in money flow into industries that offer products and aligned with renewable infrastructure, along with heightened awareness of the risk posed by climate change and increased focus on ESG metrics. The incoming administration has clearly stated that **a main priority is to build a modern sustainable infrastructure and deliver an equitable clean energy future.**

Businesses stand a chance to benefit from a tailwind of Biden's Build Back Better $2 trillion economic plan to address climate risk. **Biden's plan could mark a huge turning point that would usher in a new era of clean energy**, one that is built on both private and public partnerships. For decades state and local governments have pushed for policies to address climate risk., with the support of businesses and the financial markets. Biden's incoming administration has pledged to lead this charge and support of these efforts at the federal level. Businesses and consumers are increasingly aware of the threat posed by climate risk, the need for equitable treatment of stakeholders, and the economic and health benefits that can be realized by moving to a lower carbon economy.

The combination of good performance across these areas can add up to better positioned companies. Companies that take intentional and decisive action to lower their carbon footprint are also able to benefit from better economics, as lower costs improve the bottom line. It makes economic sense that environmental, social and governance data may lead analysts toward companies with improved profitability and lowered risk, that the efficient use of resources (energy and water) lead to lower operating expenses, that lower toxic emissions result in lower disposal expenses and lower exposure to regulatory risk, and that thoughtful management of human resources result in lower employee turnover and training expenses.

In addition to good business practices, **a clear focus on ESG and DEI issues may help company's brand, by keeping them ahead of the regulatory curve.** Evidence of these trends can be found everywhere. A culture of ethical behavior within the boardroom may well result in fewer recalls, and fewer penalties for bribery, corruption, and fraud. Companies that proactively address the challenges of diversity, equity, and inclusion ("DEI") may also benefit from more informed discussions within Board and senior management discussions, higher employee satisfaction, better employee retention, and lower hiring and training costs. NASDAQ recently proposed a new rule requiring its companies to have a more diversified board, and to pledge to address racial inequality. Within the international community, leading global institutions such as the United Nations and two Bretton Woods institutions; the World Bank and International Monetary Fund ("IMF") are encouraging companies to find robust and sustainable solutions for addressing social and economic inequality. The growing awareness and concern were recently highlighted by a meeting between members of the Council for Inclusive Capitalism and Pope Francis on the growing challenges of DEI issues and climate change. The Council for Inclusive Capitalism is comprised of companies with more than $10.5 trillion in assets under management, $2.1 trillion of market capitalization, and 200 million workers in over 163 countries.[1] It is clear that **well-managed companies that have gender and racially diverse boards and management, along with sustainable practices and a lower carbon footprint, are positioned to gain more ground within the environmental, social, and governance ("ESG") space.**

There is no doubt that the drive for ESG accelerated in 2020. Trends such as mandatory ESG reporting, the United Nations Sustainable Development Goals ("UN SDGs") framework, policymakers' fiscal response to COVID-19, increased spending on cyber security, awareness of the need for climate change adaptation and mitigation, and money flow into green finance highlight growing this growing interest in ESG. These trends are expected to continue in 2021 as the appetite for ESG integration and adaption continues to grow, and as these concepts continue to resonate with businesses, as well as with individual and institutional investors. Pathstone seeks to identify exceptional investment managers that find companies with a competitive advantage, which may include a disruptive product or service combined with a sustainable business model. Many of these managers are actively reviewing and investing in opportunities in clean and renewable energy, sustainable agriculture, electrification of automobiles, resource efficiencies, a circular economy, and the drive towards net zero. **Companies with**

products, services, or expertise that aligns well with disruptive trends, and that are better managed along ESG dimensions, are viewed as being better positioned to benefit from sustainable tailwinds in 2021.

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Mark brings more than twenty-five years of experience to his work designing, implementing and managing investment portfolios for high net worth individuals and their families, and for investment committees of charitable foundation clients. He is a voting member of Pathstone's Investment Committee and a partner of the firm. Mark is also the Chair of the Impact Committee and a member of the Alternatives and Strategy Investment Subcommittees.

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Citations

[1] Marguerite Ward. "Pope Francis joins with CEOs of Fortune 500 companies to form a new council focused on creating a more equitable economy." Business Insider. December 8, 2020. Accessed December 30, 2020. https://www.businessinsider.com/business-leaders-join-pope-francis-promote-council-inclusive-capitalism-2020-12