Top 10 Sustainable Investing and ESG Highlights of 2020

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1. Sustainable Investing Hit $17.1 Trillion in 2020, a Huge Jump of 42% from 2018

Assets that are considered to fall within the realm of "sustainable investing" increased to $17.1 trillion at the beginning of 2020, a massive jump of 42% from 2018, cites the Forum for Sustainable and Responsible Investment (US SIF) Trends Report. The trends report "provides data on the U.S. asset management firms and institutional asset owners using sustainable investment strategies and examines the ESG issues they consider in managing their portfolios. The foundation researched 384 money managers, 1,204 community investing institutions, and 530 institutional asset owners." Conflict risks, climate change and carbon emissions, tobacco, board composition, sustainable natural resources, agriculture, and executive pay are identified as major trends. Environmental, social, and governance ("ESG") issues are gaining more attention and driving sustainable investing assets to a record high.

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2. NASDAQ Pushes for Board-Diversity Through New Proposed Listing Requirements

NASDAQ Inc. has filed with the Securities and Exchanges Commission ("SEC") to adopt a proposed new rule that would require publicly traded companies listed on its exchange to include women, racial minorities, and LGBT individuals on their boards and to disclose this information to investors. If they do not meet the minimum threshold, the rule would also require companies to explain why they don't have at least two diverse directors, "including one who self-identifies as female and one who self-identifies as either an underrepresented minority or LGBTQ+."

Before the proposed rule filing, NASDAQ reviewed companies listed on its exchange and found "that more than three-quarters of its listed companies would have fallen short of the proposed requirements. Around 80% or 90% of companies had at least one female director. Still, only about a quarter had a second one who would meet the diversity requirements, a person familiar with the review said, adding that it was difficult to measure because of inconsistencies in the way companies report such data."

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3. TCFD Goes Mainstream as Global Big Companies Supports Climate Risk Disclosure

A new report by the Task Force on Climate-related Financial Disclosures ("TCFD") states that nearly 1500 companies and organizations have expressed their support for the TCFD recommendations, representing an increase of over 85% since the 2019 status report. However, despite the significant momentum, the 2020 Status Report highlights the continuing need for progress in improving TCFD-aligned disclosures given the urgent demand for consistency and comparability in reporting. Particularly, disclosure of the potential financial impact of climate change on companies' businesses and strategies remains low."

The TCFD report also found that since its first publication in 2017, climate risk-related disclosures and recommendations have increased steadily, with more progress needed for more TCFD integration into business reporting.

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4. Companies Continue to Push for DEI, Committing Large Funds Towards DEI Initiatives

The current economic and social environment has continued to resonate with businesses as they figure out how to address diversity, equity, and inclusion ("DEI") challenges that are being exposed by the lockdown and the worst economic recession experienced since the great depression. Addressing DEI challenges has become an essential topic for businesses, individual investors, and foundations trying to align their investments with their values or mission. For instance, companies globally are creating DEI strategies or initiatives to address concerns associated with DEI issues.

American Express recently joined the league of corporations pledging funds to address DEI issues. AMEX has committed approximately $1 billion to advance racial and gender equality. The commitment is arising out of heightened awareness of the need to address racial inequality resulting from the series of protests earlier this year.

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5. We Need a Marshall Plan to Address Climate Change and Inequality, Says Jeremy Grantham

The lockdown of 2020 and climate change have together caused huge disruption as to how businesses and society interact, resulting in uneven and partial recovery within countries. As businesses, government, and individual investors continue to figure out the path forward towards a post-lockdown world, Jeremy Grantham, the Co-Founder and Chief Investment Strategist of Grantham, Mayo, van Otterloo ("GMO") has called for a Marshall Plan to revive economic growth amid the pandemic and climate risks linked to threats of global warming. The Marshall Plan is similar to the one developed to help Western Europe recover the catastrophic damages from World War II.

The Marshall Plan should include a robust investment in sustainable infrastructure, which will fuel economic growth that could then help address inequality and climate change. According to Grantham, "A public works program would not only help revive the economy amid Covid-19, but it would also be to the long-term geopolitical advantage of the U.S. because it would help challenge China's dominance in green energy and industry." As evidence of China's dominance, Grantham noted that the U.S. has only 400 electric buses compared with 400,000 in China. The Marshall Plan points to a green economy driven by renewable energy, rather than oil and other fossil fuels that have powered the industry in recent decades.

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6. DOL Proposes New Rule Regarding ESG

As environmental, social, and governance ("ESG") becomes mainstream, the Department of Labor ("DOL") has proposed a new rule aimed at curbing the integration of ESG criteria in Employee Retirement Income Security Act ("ERISA") plans, citing that ESG funds sacrifice returns. According to Eugene Scalia, United States Secretary of Labor, "Private employer-sponsored retirement plans are not vehicles for furthering social goals or policy objectives that are not in the financial interest of the plan." The ERISA plan should serve the purpose of providing retirement security for pensioners and not the other way round.

The proposed new rule may serve to restrain 401k fiduciaries from making investments or selecting investment funds based solely on ESG criteria. However, the DOL would consider ESG criteria appropriate in what they perceive as those rare cases where such criteria have economic materiality or provide an economic return when selecting investments.

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7. Vatican's Call for Fossil Fuel Divestment a Bellwether for ESG Investment

The divestment movement continues to gain traction with faith leaders, higher education, and institutional and individual investors as a useful tool for addressing the impact of climate change. It is often combined with investments related to renewable energy.

Recently, the Vatican, under the leadership of Pope Francis, has urged 1.2 billion Catholics around the world to divest from companies with fossil fuel exposure. The call for divestment coincides with the "fifth anniversary of Pope Francis' landmark encyclical 'Laudato Si' (Praised Be) on the need to protect nature, life, and defenseless people." The call also outlines practical steps for achieving goals outlined within the encyclical, including divestment from companies with social and environmental controversies, human rights violations, and a focus on fossil fuels.

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8. Inequality in Different Fabrics

Economic and social inequality are moving through the fabrics of systemic challenges that affect minorities – Latinos and African Americans. African Americans and Latinos are more prone to experience more health challenges, economic inequality, and underrepresentation in C-suites positions in the corporate space.

The lockdown of 2020 has unmasked the health inequality that has existed for at least ten decades. Data from states and a lead research study by author Dr. Cary Gross and colleagues at Yale University shows that "some racial and ethnic minorities are more likely to die of COVID-19," linked to a pre-existing condition such as diabetes, heart or circulatory disease, chronic lung disease, liver disease, or renal failure.

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9. Covid19: A Local and Global Challenge

The global community is being confronted with its worst health crisis since the Ebola outbreak, which led to coordinated responses from the international community. In prior cases international responses were clearly focused on the health crisis at hand, often disregarding other needs or concerns of the local communities related to their well-being.

COVID-19 is a dangerous and novel coronavirus, a variation of a common virus. Although many other human coronaviruses have been identified that are of less concern, COVID-19 is a new coronavirus which can cause serious upper-respiratory illness. The new virus has disrupted communities across the globe along economic, health, and social dimensions.

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10. Lenders Say "Incorporate ESG or No Funding"

As environmental, social, and governance ("ESG") becomes mainstream, several lenders are cognizant of the benefits of incorporating ESG into their business strategy. These lenders are demanding that borrowers track and report their

ESG accomplishments, or they won't have access to bank capital. Such lenders are said to believe that it makes sense from a risk and return perspective, even when ESG data lacks standardization. Lenders are also incorporating rewards for improvement along ESG dimensions, and penalties for deteriorating metrics.

As noted in a Bloomberg opinion piece by Jacqueline Poh, ESG-backed loans have the capacity to shape corporate strategy as well as reduce financial risk to borrowers. However, there are concerns that lenders and borrowers may seek to employ ESG metrics simply to benefit from the positive halo generated by public relations, rather than seeking to benefit from any substantive economic outcome. If unchecked, such "greenwashing" might become more commonplace.

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About the Authors

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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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