



# Environmental, Social, & Governance: A Case Study for Boutique Investment Firms

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#### **INTRODUCTION**

Environmental, Social, Governance is everywhere in the investment world.

- Corporate annual reports
- Government regulations
- News & media

**ESG goes beyond business**. It is the foundation to a healthy society, and yet, it is exceedingly controversial.

#### PROBLEM STATEMENT

Should small investment firms, characterized by:

- Small staffs
- Set investment strategies
- Conservative, risk-averse approaches

Engage with ESG, or is it just another fad that will fade over

#### **METHODOLOGY**

#### **Interviewed 8 professional peers, to determine:**



- Why ESG is important to them?
- How is it implemented?
- Which stakeholders engage with ESG?And how it was affected their firm?

## **Interviewed 10 people new to investing, to determine:**



- If ESG is part of their investment vocabulary?
- If ESG is part of their investment philosophy?
   At its worst, ESG products disguise

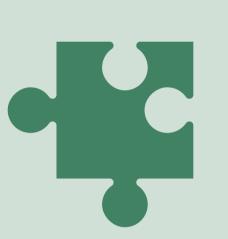
# THE SIX THEMES OF ESG INVESTING

BASED ON INTERVIEW DATA

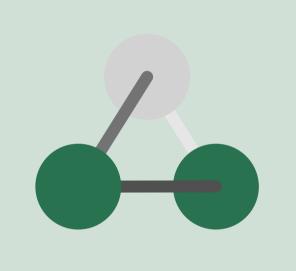












## **PRUDENCE**

At its best, ESG is a

form of risk

management.

Strong ESG leads to:

Innovation

High Operational

Efficiency

Diversification

underlying assets and

# MARKETING & EDUCATION

There is a clear

difference between

ESG products and

practices.

Stakeholders are

duped or distracted

by savvy, modern

marketing machines.

Stakeholders need to be educated to understand the true nature of ESG.

Fintech provides an alternative to traditional banking institutions.

ESG motivates and

innovates science and

business governance.

ESG technology is

experimental.

Investments can be

risky and/or provide

diminished returns.

**FINANCE** 

**TECHNOLOGY** 

"FINTECH"

DIVERSITY & INCLUSION

The majority of ESG investors are women and people of color.

ESG creates space for

women and people of

color in the finance

industry.

Allows companies to

just "check the box"

when it comes to

diversity.

G en r. There is no one set of standards or regulating authority for ESG reporting.

**ACCOUNTABILITY** 

ESG changes the definition of return on investment, adding nonfinancial criteria to the equation.

ESG captures what

numbers cannot. It

reveals unseen risks

and has changed how

investors measure

success and failure.

Potential for

disgruntled clients

when ROI does not

measure up to

standard performance

benchmarks.

(RE)DEFINING

The U.S. government is developing ESG standards based on public opinion and corporate pressure.

Companies can
"greenwash"
investments or
"cherry pick" which
ESG metrics to
disclose.

#### CONCLUSION

Investing is no longer just about money.

It is about the people and communities in which capitalism operates.

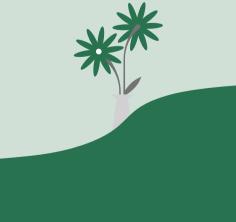
**ESG goes beyond business** to investing in the foundation of a healthy society.

It is imperative that investment firms of all shapes and sizes engage with the concept, for we **cannot afford** to ignore it.

#### RECOMMENDATION

For my own firm, it is my recommendation that we include ESG criteria in our investment analysis procedures by adopting:

- 1. A client questionnaire to determine the extent to which values should be considered in investment decisions.
- 2. A new section added to our Investment Policy Statement defining risk.
- 3. A new section added to our Securities Analysis Report that will include the analysts' opinion of the following ESG criteria:
  - Board diversity
  - Board and management experience
  - Employee policies and procedures
  - Environmental practices
  - Community engagement
  - Prudent cash management
  - Commitment to stakeholders (not just shareholders)
  - Prospective for long-term growth



# LITERATURE CITED

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## **THANK YOU**

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# **CONTACT INFORMATION**

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