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

Katherine M. Lummis, Master of Arts Candidate
Human Dimensions of Organizations, The University of Texas at Austin

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 time?

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?

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

MARKETING & EDUCATION
At its worst, ESG is a form of marketing.
- Stakeholders are easily swayed by greenwashing machines.

FINANCE TECHNOLOGY "FINTECH"
There is a clear difference between ESG products and traditional banking institutions.
- ESG technology is experimental.
- ESG metrics to disclose.

DIVERSITY & INCLUSION
ESG creates space for women and people of color in the finance industry.
- ESG motivates and allows companies to "cherry pick" which ESG metrics to disclose.

ACCOUNTABILITY
There is no set of standards or regulating authority for ESG reporting.
- The U.S. government is devoting ESG to regulatory action.

(Re)Defining "ROI"
ESG changes the metrics of return on investment.
- Strong ESG leads to innovation - High Operational Efficiency
- Diversification

LITERATURE CITED

THANK YOU
Thank you to all the HDO Faculty and Staff for providing such an amazing experience in such difficult times.

CONTACT INFORMATION
Kate Lummis, Director of Development & Compliance
kate@lamcocapital.com

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