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 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	MARKETING & EDUCATION	FINANCE TECHNOLOGY "FINTECH"	DIVERSITY & INCLUSION	ACCOUNTABILITY	(RE)DEFINING "ROI"
At its best, ESG is a form of risk management.	Stakeholders need to be educated to understand the true nature of ESG.	Fintech provides an alternative to traditional banking institutions.	The majority of ESG investors are women and people of color.	There is no one set of standards or regulating authority for ESG reporting.	ESG changes the definition of return on investment, adding nonfinancial criteria to the equation.
Strong ESG leads to: Innovation; High Operational Efficiency; Diversification	There is a clear difference between ESG products and practices.	ESG motivates and innovates science and business governance.	ESG creates space for women and people of color in the finance industry.	The U.S. government is developing ESG standards based on public opinion and corporate pressure.	ESG captures what numbers cannot. It reveals unseen risks and has changed how investors measure success and failure.
At its worst, ESG products disguise underlying assets and charge high fees.	Stakeholders are duped or distracted by savvy, modern marketing machines.	ESG technology is experimental. Investments can be risky and/or provide diminished returns.	Allows companies to just "check the box" when it comes to diversity.	Companies can "greenwash" investments or "cherry pick" which ESG metrics to disclose.	Potential for disgruntled clients when ROI does not measure up to standard performance benchmarks.

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

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

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