

# DOING WELL WHILE DOING GOOD

## ESG INVESTING

ESG investing has come into focus in recent years as a new means of analyzing the capital markets for investors looking to align their portfolios with their values. In this article, we'll discuss what ESG means, potential benefits, and current & possible trends in the ESG space.

## WHAT IS ESG?

ESG investment screening and integration is the method of utilizing environmental, social, and governance factors to select securities whose corporate business models and values closely align with the investor. ESG evolved from the original practice of socially responsible investing (SRI). SRI began in the 1960s to focus on companies that contributed to causes like civil & women's rights and anti-war efforts. The mantra of "doing well while doing good" and having portfolios that represent their values were the focus and SRI provided the framework that would grow into ESG.

The *environmental* component could include the company's carbon footprint, waste & resource management, pollution, natural resource conservation, evaluation & control of environmental risks, and relationship with the EPA.

The *social* component corresponds to the people-related elements of culture, issues – both within the company & greater society – that impact employees, customers, consumers, & suppliers, and community involvement.

The *governance* component relates to the board of directors, company oversight, and relationship with shareholders. Areas of interest for this component might include executive compensation packages, diversity & inclusion on the board & in management, separation of chairman & CEO roles, dual/multiple class stock structures, and the company's relationship with governmental regulatory agencies.

## BENEFITS OF ESG

Proponents of ESG screening & integration hypothesize companies with an ESG focus will outperform those who do not. In the case of the S&P 500 ESG Index, S&P Global show a strong performing portfolio constructed using ESG principles, even when eliminating more than 30% of the parent index's constituents. Additionally, with a shift in younger investor's mindset, companies are being tasked with hiring management teams focused on ESG factors, casting long-term vision for their companies, rather than chase short-term, quarterly profits.

Another benefit, and perhaps most important, is the personalized approach to build an ESG portfolio. While individual ESG factors are essential, some investors incorporate personal cause-specific screens, such as eliminating firearms & tobacco-related companies, further personalizing the portfolio. ESG investors are intent on “doing well while doing good,” willing to sacrifice absolute, total return in exchange for a portfolio molded on their core values.

## ESG TRENDS

Some current & coming trends for the ESG space are exciting. As more low-cost ETF providers enter the area, the method is becoming more cost-effective for the average investor. This product availability should encourage actively managed vehicles to become more cost-focused. Also, as it stands today, proponents are actively campaigning for the SEC to require specific ESG disclosure requirements to make the screening & implementation tasks less tedious. Now, the SEC is actively comparing information companies provide voluntarily with their SEC disclosure to determine what would be necessary.

## CONCLUSION

The ESG movement is a rapidly growing movement. In Q1 2020, during a tumultuous market cycle, Morningstar tracked \$45.6 billion in inflow into ESG funds versus \$385 billion in outflows of the overall fund universe. As the space continues to grow, it's essential to continue to monitor movements & developments, to keep passionate ESG investors & their portfolios abreast and ahead of potential challenges and opportunities.

First State Trust Company believes in supporting our clients to the fullest. Our most passionate clients can access ESG screening & implementation by utilizing one of our partners as an individual portfolio manager or using ESG mutual fund and ETF managers through a proprietary management platform. Our alliance partners each have ESG capabilities to manage trust portfolios. If you have any questions or are looking for an appropriate solution, please reach out to your trust officer.

**Please don't hesitate to contact your Trust Officer with any questions or call  
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