Breaking down E, S and G

A closer look at the three pillars of sustainability

Like traditional financial metrics, sustainability issues can have a big impact on a company's potential performance — and, ultimately, a portfolio's returns. Managed well, sustainability issues can help companies generate more long-term value. Managed poorly, sustainability issues can create risks. The Environmental, Social and Governance (ESG) framework breaks down these issues into three important categories.

Environmental

- Greenhouse gas (GHG) emissions
- Air quality
- Water & wastewater management
- Waste & hazardous materials management
- Ecological impacts

Why it matters:
Environmental risks include the potential for financial losses as the world transitions away from fossil fuels. Environmental issues can also present growth opportunities for some companies, such as those involved with renewable energy.

Social

- Human rights & community relations
- Customer privacy/data security
- Customer welfare
- Labor practices
- Employee engagement
- Among others

Why it matters:
The broad range of social risks includes everything from human rights abuses in supply chains to customer data breaches. Working to improve social issues, such as fostering employee engagement, diversity and inclusion, may improve a company's performance.

Governance

- Business ethics
- Competitive behavior
- Management of the legal & regulatory environment
- Systemic risk management
- Physical impacts of climate change
- And others

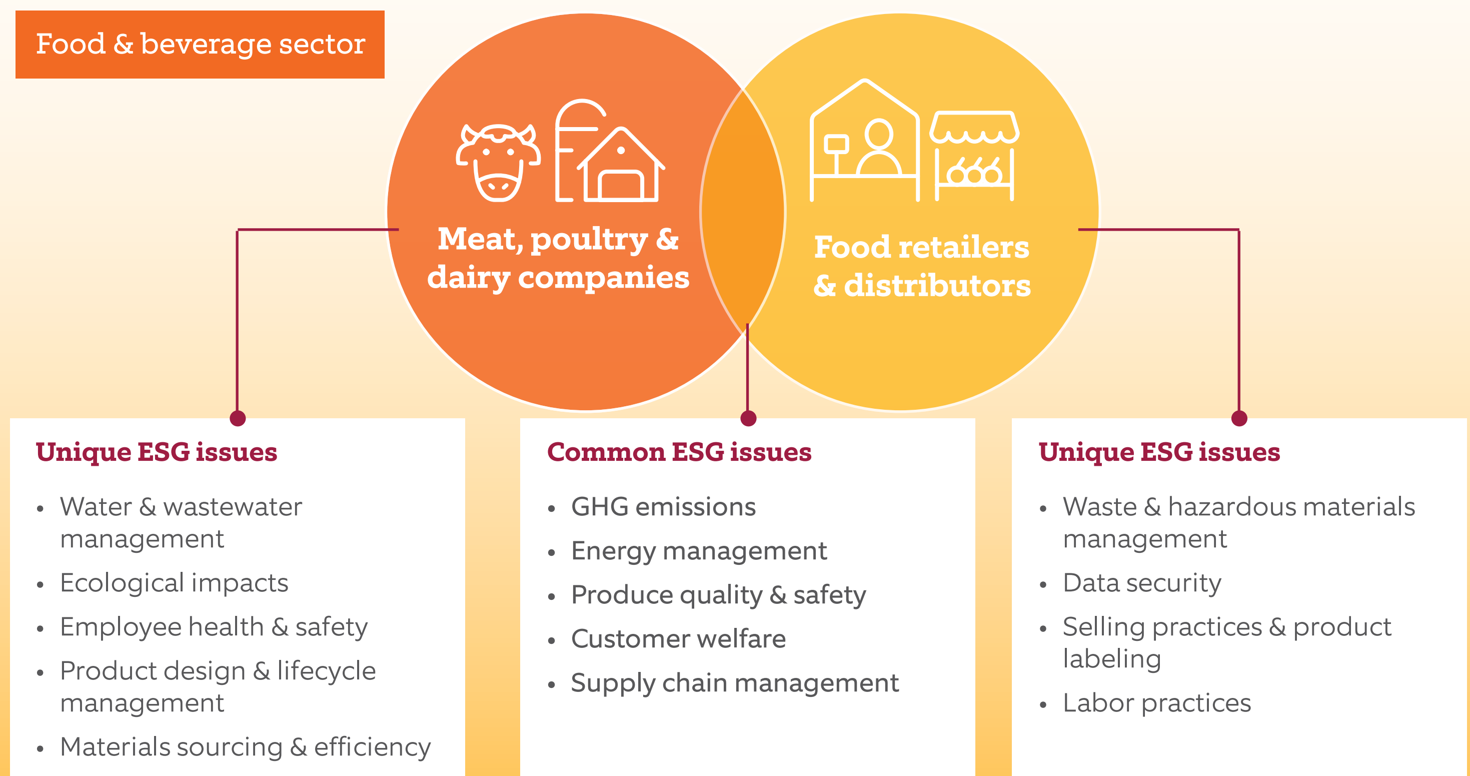
Why it matters:
Strong corporate governance can help avoid issues that hurt shareholder value, such as excessive executive pay or corruption. Companies with strong governance practices may be able to navigate sustainability issues more skillfully in the future.

Identifying the sustainability issues that matter most to each company

While all three pillars are important, the specific issues that matter most to individual companies will vary depending on their industry.

That's why a good sustainable investing strategy should identify which ESG issues are most likely to have a meaningful impact on a company's bottom line based on their type of business.

For example, consider two types of companies in the food & beverage sector: While they have some important sustainability issues in common — such as greenhouse gas (GHG) emissions — their distinct business models require investors to focus on different issues that are likely to affect each company's finances or operations.



Talk with your advisor to learn more about using ESG to manage investment risk and opportunity.

IMPORTANT INFORMATION

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Currently, there is a lack of common industry standards relating to the development and application of ESG criteria, which may make it difficult to compare an ESG investment methodology with the investment strategies of other investment products or funds that integrate certain ESG criteria. The subjective value that investors may assign to certain types of ESG characteristics may differ substantially from that of an ESG investment methodology or a data provider.

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