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Why ESG Matters (First of a Series)

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Last weekend, we took our eight-year-old daughter to the library to get books on her school reading list. (The "Ready, Freddy!" series, if you must know).

On the way out, a mother and her two young sons preceded us. The boys ran into the automatic revolving door. "No," she said, opening the swinging door. "Come this way." Our energy-efficient conscience scolded her. Until she added, "That door uses electricity!"

Welcome to the challenges of an ESG world: Which exit is the better green option: one using electricity or one losing heat or air-conditioning?

The Russia/Ukraine war which, beyond humanitarian and geopolitical aspects, gives rise to serious environmental, social and governance conflicts. Europe's reliance on Russian energy, for example, could be lessened by US natural gas imports, yet that would mean more drilling.

From the start of the "first European war in the ESG age" (as one analyst dubbed it), Ukraine begged for more military weapons. But arms manufacturers are on many ESG-sensitive investors' do-not-buy lists. Can the US and Europe put aside its negative screens to support Ukrainian defense? Who decides the "good" fights from the "bad" ones?

We begin our special series noting that covering ESG in a thoughtful way means to acknowledge its complexities and sometimes inherent contradictions. As with any global issues with political and economic consequences, there are disagreements around ESG definitions, methodologies and metrics. And no clear consensus about its financial or philosophical implications.

It also doesn't help that, as a recent FundFire interview highlighted, the industry is replete with mysterious jargon like "fitwel," "greenwashing," and "SDG alignment" which can distance the uninitiated.

What is inarguable is the breadth and depth of this movement. According to Bloomberg (see our *Chart of the Week*) ESG assets will exceed $53 trillion globally. That's almost 40% of projected $140.5 trillion AUM.

On Main Street, 95% of the S&P 500 have detailed public ESG data (per the Center for Audit Quality). On Wall Street (according to Morningstar) mutual funds and ETFs related to ESG raised $51 billion in 2020, more than the total prior eleven years.

ESG's impact on investor and manager behavior has changed the way we look at the world. How did that happen? What is the spectrum of ESG approaches, and how are they measured? What does it mean for private capital? In the weeks ahead we'll tackle these and other issues.

Next week: We'll start by exploring ESG's origins and evolution.