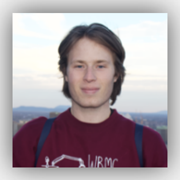
The End of ESG Investing?

Opinion Snapshot

August 2020



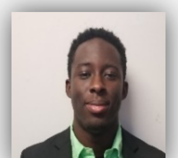
Jackson Evans
Middlebury College

Samuel Ntim-Addae
Hamilton College

Leia Quinn
Endicott College

Sreylin Touch
Davidson College

Frederick Xongmixay
Hamilton College



Dylan Essandoh
Davidson College

In the mid-1980s institutional investors applied aggressive investing techniques to starve companies doing business in South Africa, applying pressure to end apartheid.[1] When apartheid finally ended in 1994, principles-based investing (and investors) took justifiable credit, and then began to evolve in meaning and scope.

Principles-based investing is referred to by many names, in particular ESG, or Environmental, Social and Governance investing. It is now much more than exclusionary investing, and is one of the fastest growing investment techniques, with the number of funds growing seven times from 81 to 564 between 2018 and 2019, and inflows quadrupling to \$21.4 billion over the same period.[2] Globally, \$23 trillion in managed assets consider environmental, social, and governance principles, increasing 38% since 2016.[3, 4] Google provides almost 50 million search results for "ESG;" it is clearly one of the most important conversations in investing.

We, as part of Gen Z, have a different set of beliefs and expectations for the investment community about ESG. Greenwashing and a lack of systematic change in the past has left us cynical. Is the noise generated in the investment world about ESG genuine: are we serious about ESG?

We ask: is ESG the future of investment, or simply a trend used by large asset management firms to generate flows? Some firms like Morningstar have published, at length, the benefits of considering ESG principles. Morningstar has also acquired a leading independent global provider of ESG research and ratings, Sustainalytics, to reinforce research and increase understanding of ESG's impact on performance. Perhaps, ESG could become to investment what latitude and longitude became to navigation: an essential tool to investment analysis. We think there is a material chance, that because of performance, demand, and governmental action, ESG will end, and cease to exist as a separate category – with one caveat: we need to be careful to not overreach and try to integrate every social issue into investment processes.

Sapere Aude Consortium, LLC was formed in July 2020 to serve college students interested in financial services, and whose internships were negatively impacted by COVID. The three founders' goal was to provide a forum for students to research and learn about critical issues impacting the wealth and investment management industries. The authors listed above were asked to express their own ideas in this Opinion Snapshot, whether or not the founders agreed with their opinions or proposals. This Opinion Snapshot is offered in that spirit – to hear the views of some of the next generation of professionals to enter the wealth and investment industries. Neither Sapere Aude Consortium, the founders, nor any of the authors received any financial support from any firm or person with any interest, financial or otherwise, in this article. Neither the founders, nor the authors are currently affiliated with any organization mentioned in this article.

We examine four areas to present our view on The End of ESG Investing, and whether ESG will become the way we invest:

1. Impact of ESG on Investment Performance
2. Demand for ESG Investing
3. Government Action to promote or restrict ESG Investing
4. The Complexity of "S": A Spotlight on Social in ESG

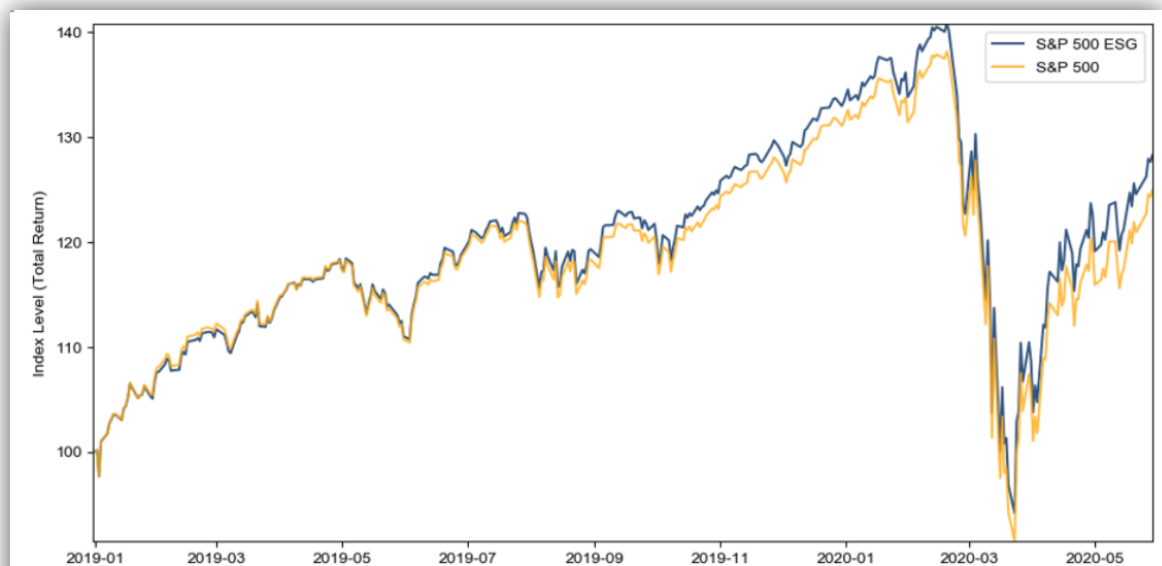
Impact of ESG on Investment Performance

Before we begin our analysis, we must acknowledge the nascent nature of ESG performance research that reflects the evolution of ESG investing from purely exclusionary techniques to more diverse investment processes. Though principles-based investing existed long before the emergence of ESG indicators, most notably in foreign disinvestment in apartheid South Africa,[5] research into the financial benefits of ESG began in earnest in 2005.[6] With the emergence of ESG indicators also came an evolution in principled investing from a purely exclusionary process into an inclusionary process. Earlier principled investing focused entirely on starving the flow of capital to certain targeted agents, such as apartheid South Africa, tobacco companies and weapons manufacturers. It was a restrictive process and investors believed they would forego potentially lucrative but morally questionable investments. With the emergence of inclusionary ESG principles, it became possible for investors to invest in funds based upon the positive characteristics they exhibited rather than simply exclude negative characteristics. Today, this is implemented by increasing investments in companies with low carbon footprints, diverse boards, and positive labor conditions.[7] Many have looked at the ESG revolution as moral posturing from the larger investment community, but this view fails to take into account the growing research in support of the performance advantages ESG indicators provide.

Research has suggested that ESG funds have inherent advantages over non-ESG funds in risk and return.[8] If ESG funds do indeed hold a performance advantage, then we can assert that the ESG revolution is not morale posturing but rather a move towards a more effective form of investing and, if this is the case, it is only a matter of time until ESG principles become a new standard in investment.

The majority of studies conclude that ESG funds perform at least as well as, if not better than, similar non-ESG funds, which are comparable portfolios that do not incorporate ESG principles or indicators and serve as the control in most studies. Since data is limited due to the nascent nature of ESG coverage, it is difficult to make general statements about the performance of ESG funds. BlackRock's research, "which relies on back-tested data, shows how ESG-focused indexes have matched or exceeded returns of their standard counterparts, with comparable volatility."[9] Similarly, in 2017, 16 of Morningstar's 20 global sustainable indexes beat their non-ESG equivalents.[10] Enterprising Investor found that the performance of a portfolio could be directly correlated with its ESG rating; portfolios with high ESG scores on average returned 0.16% more than neutral funds between 2008 and 2018.[11] Morgan Stanley found that contrary to popular belief, ESG funds had "only sporadic and inconsistent differences" in performance to neutral funds.[12]

The Journal of Sustainable Finance and Investment consolidated results of 2,200 individual studies to get more reliable data on ESG investing. It concluded that 90% of studies found either an equal or positive relationship between ESG principles and corporate financial performance.[13] The graph below displays the index level of the standard S&P 500 index compared to the S&P 500 ESG index which consists of securities that meet sustainability requirements while maintaining similar group weights as the S&P 500.[14,15] These indices are weighted according to their market cap.[16] Since the launch of this index in 2019, the S&P 500 ESG index has outperformed by 2.21% with a larger gap between the two lines in recent months, indicating a larger difference between ESG returns and regular S&P 500 returns.[17]



Source: Indexology Blog "Is ESG a factor? The S&P 500 ESG Index's Steady Outperformance"

While studies like those detailed above are more common, there are others which argue against the ability of ESG funds to generate alpha. An Institutional Investor article from 2020 had a different view of ESG performance stating, "The Standard and Poor's 500 index returned 13.56 percent annualized between 2010 and 2019. All ESG funds returned 10.84%" and "MSCI KLD 400 Social Index had a return-to-volatility ratio of 1.01, while the same volatility measure for the S&P 500 was an almost-identical 1.09."[18] These statistics were collected between recessions, when the market was significantly more stable than it was in the first quarter of 2020,[19] and, therefore, was unable to test the resiliency of ESG investments against a volatile market environment.

Market Volatility of 2020 and the Resiliency of ESG Funds

While return is an important indicator of performance, it fails to give a complete account on its own. Resilience is also paramount; in a growingly unpredictable world, safeguarding one's assets is just as important as growing them. With the tumultuous market in 2020, resilience has emerged as a virtue to investing intelligently.[20] Morningstar collected data in their study of the first quarter of 2020: "24 of 26 environmental, social, and governance-tilted index funds outperformed their closest conventional counterparts in the first quarter of 2020."[21] This data suggests that as the economy rapidly changes due to the COVID-19 Pandemic, ESG portfolios are performing better than their non-ESG counterparts.[22] Similarly, S&P Global Market Intelligence analyzed funds based partially on ESG criteria and found that 12 out of 17 lost less value than the S&P 500 funds during the COVID-19 crisis.[23] Results continued to be competitive for ESG investments in the second quarter of 2020 with 56% of sustainable funds ranking in the top two quartiles.[24] While this is a short period and more research needs to be done, the buoyancy of ESG funds during this unprecedented time should not be ignored.

While the data suggests that ESG investments perform equal to and perhaps better than non-ESG investments overall, the most compelling evidence may be the effect that ESG funds are having on asset management practices. Fiduciaries are bound to apply the highest standard of care for their customers and put their interests first.[25] Therefore, we can safely assume that changes made to the investment processes within these firms are done for the client's financial benefit. Asset management firms have voiced their strong support for integrating ESG into other active portfolios. Harvard Business School Professor Vikram Gandhi has even argued that incorporating ESG into portfolios is an extension of fiduciary duty.[26] In January, Laurence Fink, the Chairman and CEO of BlackRock, announced that sustainability will be their new standard for investing.[27] Wellington Management, a private investment management firm with over $1 trillion under management, has an ESG team working closely with their investment managers to maximize the long-term return of investments.[28] Both of these firms have begun to integrate ESG investments into all portfolios, and they are not alone. Allianz, a global financial services company, aims to integrate ESG factors throughout its entire investment value chain.[29] Schroders, a global investment management company, revealed that investors use sustainable investing in order to get better returns.[30] Fidelity International Investments declared that they consider ESG issues an integral part of their investment process.[31] Asset management firms have taken steps in order to better practice what they preach.

Though by no means definitive, we have been able to observe a trend within the data. Most research points to ESG indicators having a positive performance impact on portfolios, with fund performance also being less volatile and more resistant to economic downturns. The benefits are real, the data is becoming increasingly available, and the largest asset management firms are capitalizing to fulfill their fiduciary duties and profit from both investment and business outperformance. Hopefully these changes are reflective of systemic changes within the greater investment industry, rather than performative gestures to attract new investors.

Demand for ESG Investing

Traditionally, demand for and action on ESG principles have come primarily from institutional investors, which are often driven by their large constituent bases. However, we are now beginning to see individual investors demonstrating significant demand for ESG as well. While demand from younger generations may be more pronounced, are the older generations with the largest share of wealth today shifting to ESG? Will demand from these three groups signify a permanent, structural shift?

ESG Investment Footprints by Institutional Investors

Institutional investors control about 80% of the total assets in the U.S. equity market.[32] With their large pools of assets, this group is a vital player in normalizing ESG investing. If they believe that ESG drives long term investment performance, they will continue to shift more assets into ESG portfolios. Engagement and consideration of their constituent bases may also play a role in driving this transition.

Universities and colleges are reducing their exposure to oil-and-gas investments as constituents advocate for change. Around 2012, 350.org assisted college students in establishing a college divestment movement to push endowments away from companies contributing to global warming.[33] Their aim is to have their schools use their financial leverage, $600 billion in total assets, to influence positive societal changes.[34] Many schools hesitated to adopt the divestment policy fearing financial backlash; others called out the divestment campaign as counterproductive.[35] Nevertheless, the divestment campaign is gaining momentum as students continue to address environmental and societal issues, alumni continue to fund endowments, and boards of trustees are rotated to younger people. According to gofossilfree.org, educational institutions worldwide accounts for 15% of $14.38 trillion pledged to divest from fossil fuel in 2019.[36] As students will keep pushing their educational institutions to do “the right things,” it would not be a surprise to see more college and university endowments flowing into ESG portfolios.

On the other hand, ESG demand from private pension funds has faced constraints from ERISA.[37] In 2019, $6.2 trillion of the U.S. total of $32.2 trillion in retirement assets were in 401(k) plans.[38] According to Bloomberg Quint, only 3% of 401(k) plans offer options for participants to invest in ESG funds and less than 1% are actually being invested in ESG funds.[39] With the recent June 2020 proposal made by the Department of Labor, which would require fiduciaries to invest solely based on pecuniary considerations, private corporations may be more reluctant to increase the availability of ESG options.[40] However, with asset managers and institutional investors having strongly opposed this proposal based on investment performance and the continued shift in leadership and general workforce, we look forward to a transformation of DoL policy on 401(k) plans.[41]

Unlike private corporations, public pension funds are not subject to ERISA and have embraced ESG funds more eagerly for both financial performance and the promotion of social and environmental goals. In 2018, public pension funds accounted for 54% of ESG investment in the United States, making them the leader among institutional investors.[42] Their leadership is likely to continue as states enact pension regulations to spur ESG investment.[43] Despite the federal government's indifference towards ESG investing, states such as California, Illinois, New York, New Jersey, Oregon, Connecticut and Washington (and cities such as Seattle and Boston) are embracing it.[44] These states are incorporating ESG principles as their strategy to manage risks and maximize returns in the long term.[45] Regardless of financial performance, they believe investing this way promotes social and environmental goals that best benefit their constituents.[46] With the current political climate and incoming financial evidence, we think these factors will encourage more states to follow suit.

ESG investing momentum differs among institutional investors: while endowments, foundations and public pension funds are integrating ESG factors into their portfolios, private pension funds are lagging due to the DoL's interpretation of ERISA. A push from states, public funds, endowments, as well as their constituents, will play a crucial role in the near-term acceleration of ESG principles.

ESG Demand Among Young People

Millennials account for over one third of the global population and, in the next few decades, $30 trillion in wealth will transfer from Baby Boomers and Gen X to Millennials. We can therefore expect impactful shifts in investment styles and consumer habits to occur at a rapid pace.[47] We will refer to Millennials and Gen Z combined as the Next Generation, whereas the Current Generation refers to Baby Boomers and Gen X.

The Next Generation cares about investing in ESG more than the Current Generation. A deVere Group survey showed that 77% of Millennial investors cite ESG as the top priority during investment analysis.[48] In 2019 Morgan Stanley found that Millennial interest in the sustainable investing sector numbers 95%.[49] With around half of the Next Generation willing to make less profit if investments work synchronously with their principles and 81% of Millennials recognizing the financial strengths of ESG investing, it appears there is demand from young people to actually invest in ESG.[50, 51] Therefore, as the Next Generation holds more wealth, their strong foundation of investing based on principles, coupled with high engagement in ESG issues, creates a high propensity for larger demand in ESG funds. This interest that exists among the Next Generation will create an avalanche of future demand.

Workforce Strategy

Further research suggests the use of ESG internally can function as a workforce strategy rather than just as an investment strategy.

Millennials are 11% more likely than average to apply for certain jobs due to ESG considerations, and nearly 40% of Millennials report they have accepted offers of employment to companies that are environmentally stable over a company that is not.[52, 53] Businesses with advanced internal ESG practices will establish themselves to potential employees as deserving of their talent.

ESG practices increasingly become vital to a workplace. 48% of Millennials report speaking up to critique or defending their employer's actions as they relate to social issues, highlighting that young people engage in ESG issues in the workplace, as well as with their money and investments.[54] The best employers by employee satisfaction have 14% higher average ESG scores, and high employee satisfaction is shown to link to increased efficiency, loyal employees, and the desire to improve results.[55] Clearly, companies with good ESG practices prove to be the most attractive to young applicants and have higher employee satisfaction. Companies with high employee satisfaction rank 26% better in understanding employee sentiment.[56] The Next Generation actively makes decisions on where to work and invest based on ESG, and their impact will only increase as they move into leadership positions.

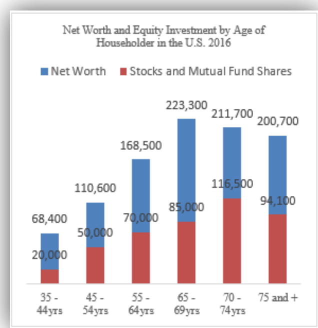
This train has already left, as the Next Generation of workers have already begun to screen their own applications to businesses that employ proactive ESG practices and are investing more in ESG. The impact of ESG investment and practices from the Next Generation has already been observed in the institutional investment industry and is only increasing. While members of the Next Generation are being blocked in their 401(k) investments, it seems highly unlikely that as they shift into leadership positions these plans will stagnate at only 3% in ESG funds.

The Holy Grail: Wealthy Baby Boomers and Generation X Investors

Baby Boomers and Generation X, or the "Current Generation," control a majority of private wealth in the United States, making them key players in the pace of normalizing ESG investing. In 2019, the Current Generation collectively made up about 41% of the U.S. population, about 2% less than the Next Generation.[57] However, they are far wealthier than the Next Generation, and the wealth gap is only expanding.[58] Aside from its tens of trillions of dollars combined in assets, the Current Generation is also an active equity investor, as illustrated below. These characteristics make them vital in driving momentum to normalize ESG investing.

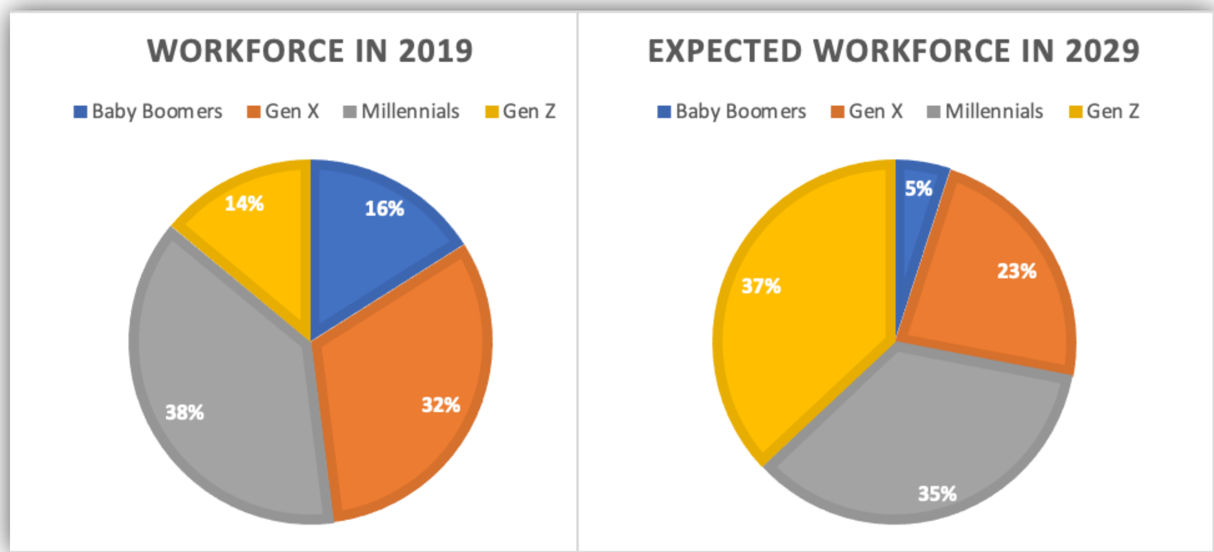
The Current Generation is more concerned about the volatility of their equity investments than the Next Generation, given their shorter investment horizon. They will be particularly focused on the potential for ESG funds and principles to reduce risk and provide more downside protection as they approach (or are in) retirement.[59]

There is no denying that the Next Generation is leading in ESG, but the Current Generation is paying attention. While nearly two-thirds of millennials say they would be interested in having ESG funds in their portfolios, the Current Generation is not far behind, at nearly one half.[61] It remains to be seen if the Current Generation will meaningfully move the ESG needle, but their demand is clearly increasing. According to the Share Center, an independent UK retail stockbroker, trading of ESG funds hiked 107% among Current Generation Investors during COVID-19.[62] Back to the U.S., based on a survey by Bank of America, in 2018 about 67%, up from 38% in 2013, of wealthy Gen X investors readjusted their portfolios to include ESG investments.[63]



Source: US Census Bureau.[60] The data is based on a survey on less than 200,000 households.

The Current Generation will have a big impact on the timing of any normalization of ESG investing. How fast the Current Generation moves to embrace ESG factors will drive the tipping point where ESG is no longer a separate category of investing. How soon we will see that tipping point may depend on evidence of the impact of ESG principles on risk and downside protection on retirement portfolios, as well as the persuasiveness of the Next Generation at the dinner table.



The Next Generation is already investing this way. Morgan Stanley found that 67% of Millennials take part in at least one sustainable investing practice, as opposed to 52% of the general population.[64] Millennials are 13% more likely to invest in a fund that targets specific ESG goals and 11% more likely to back away from an investment opportunity due to an objection to a company's values or lack of ESG practices.[65] Allianz' ESG Investor Sentiment Study found, even more strikingly, that 57% of Millennials surveyed have halted investments due to negative impacts as opposed to 35% of Baby Boomers and 42% of Gen Xers.[66]

Regardless of the actions of an individual firm or investment manager, the Next Generation continues to invest their money on investment products that align with their own principles.

The Next Generation Growing in the Workforce

The Next Generation gains more social and economic capital by the day and increasingly owns a higher share of global wealth. Millennials are expected to soon control $30 trillion in assets in the U.S. alone.[67] Combined with an increase of Gen Z in the workforce from 14% to 37%, the Next Generation will soon jump from 52% to 72% of the global workforce.[68, 69]

As the demand for ESG investment and products increases among the Next Generation, and they accrue more and more capital through an increase in their representation in the workforce, their dispositions progressively have a large impact on the market. The Next Generation's demand for ESG will continue to grow, supporting the normalization of ESG going forward.

Government Action to Promote or Restrict ESG Investing

Government plays a critical role in the growth of ESG investing in their countries. Without government support, the acceleration of ESG investing would face impediments.

United Nations

This UN holds a special status in terms of ESG governance. This is despite lacking the authority and jurisdiction of its member states, and even though it is often characterized by political deadlock in the Security Council. In a sense, it is sometimes seen as a passive government.

Despite these impediments, the United Nations has, in many ways, been the driving force in creating an environment that supports ESG investments. This is evidenced in the UN's establishment of the Principles for Responsible Investment (PRI). With the support of the United Nations Global Compact and the United Nations Environment Programme Finance Initiative, the PRI has published guiding principles to help incorporate ESG into investments globally. As a signatory of the PRI, a member would volunteer to uphold these principles, such as disclosing information on ESG activities and the integration of ESG factors into investment-making decisions.[70] In doing so, the PRI helps serve as a model for governments and organizations in regards to how one could implement policies that would promote ESG investment. Despite it being voluntary in nature, there is enormous pressure to be a signatory, with many institutions and asset owners requiring their managers to sign. This has resulted in an increase in the number of signatories to the PRI, which demonstrates the outreach and effectiveness of the PRI, and by extension, the United Nation's role in ESG investing.[71] Additionally, these are not small firms or organizations: Japan's Government Pension Fund, one of the largest asset owners in the world, is a signatory.[72]

European Union

One of the most successful and leading forces in ESG investing is the European Union. When the new European Commission President Ursula von der Leyen ("VDL") was running for her position in 2019, she unveiled the European Green Deal as a policy plan that she would spearhead during her time as commission president. Within this proposal were plans for the EU to be climate neutral and for the continent, in particular the EU, to effectively transition to clean energy.[73] This broad agenda builds off of the Juncker administration in regards to environmental policy and continues to lay the foundation supportive of ESG investing.[74] For example, under the European Green Deal, the VDL administration has proposed the creation of an EU taxonomy. Through this classification framework, investors will be able to identify green activity in the financial market, such as activities that are low carbon and the manufacturing of materials essential to the production of renewable energy.[75] With this type of information available, investors are presented with a standard, or "common language," which helps investors obtain information about which companies are considering ESG factors, and encourage companies to increase issuance of sustainable assets, such as green bonds. In addition to establishing a standard metric or system for ESG investing, the VDL administration has taken it further by incorporating ESG factors into the political landscape with the creation of the Higher-Level Expert Group (HLEG) on sustainable finance. One goal of this advisory group is to explore how the EU can help accelerate the flow of capital into ESG related funds.[76]

In implementing policies that support ESG investing, the EU has created an environment ripe for ESG investing. For instance, the EU had $14.1 trillion in ESG investing since 2018, which surpassed countries such as the U.S. by $2 trillion and Japan by $12.1 trillion.[77] Therefore, there is evidence that a proactive approach from the government can help ease transitions in accepting the use and consideration of ESG factors.

Japan

Within Asia, Japan has the fastest growing ESG investment market. In fact, from 2016 - 2017, there was a 242% increase in sustainable investments in Japan.[78] Despite this impressive position on ESG investing, Japan required significant changes to meet this level of ESG investment activity. Previously, Japanese corporations followed the *keiretsu* structure, which made minority shareholders unable to have any say in the corporation's agenda.[79] With this type of environment, since investor views would not be recognized, ESG investing would not be able to flourish. Under the Abe administration, changes were made with the introduction of Abenomics: particularly the "third arrow," aimed to modernize the Japanese economy to appeal to global investors.[80] Under this "third arrow," the government opened the path for changes in Japanese corporations and the financial institutions concerning ESG investing.

One way the Japanese government pursued these changes was through the Ito Review, initiated to understand how to create mid-long-term growth in Japanese corporations.[81] The Ito Review found that there was a lack of oversight in companies and that there was no environment that facilitated dialogue between investors and companies.[82] The Japanese government remedied this by establishing the Governance Code, which advises that an environment be created to support communication and cooperation between both bodies.[83] With these new guidelines for corporations, they lead to the creation of an environment in which ESG factors are received and worked on successfully. We see this in how the Governance Code allowed shareholders to engage with companies to include ESG factors in their corporation's plans.[84]

Another way that Japan has supported ESG investing is through increasing the issuance of green bonds. This was done through the creation of the Green Bond Guidelines ("GBG"). The GBG require all participants to disclose environmental impact reports and objectives.[85] In creating these guidelines, the government created an environment in which investors could easily identify ESG products. It seems as though the presence of a standard in classification has allowed for more green bonds to be created.[86]

These supportive measures from the Japanese government have led to Japan experiencing an increase in sustainable investments from 57 trillion in yen to 232 trillion in yen, about $2 trillion USD.[87] The Japanese government and the EU have demonstrated that governments can create environments for ESG investing to prosper.

China

While the United States has the largest equity and bond markets, China comes in second with an equity market valued at $11 trillion and a bond market valuing at about $14 trillion.[88] [89] Long considered as an emerging market, the scale of the Chinese economy means that its role in ESG investing will be significant and something to watch for in the future.

Previously in China, ESG investing did not gain that much traction compared to other countries and their government's efforts. In 2014, the market for sustainable investment in China accounted for only 14% in Asia, excluding Japan from that recording.[90] Since then, ESG investing has gained more traction in China: from the time the UN PRI debuted in China, the number of signatories has increased from 7 to 33.[91] Among the signatories is China Life Asset Management, China's largest asset owner.[92] The Supportive ESG policies pushed by the Chinese government has helped guide the Chinese economy and society to become more supportive of ESG investing over time. In 2016, the Chinese government issued the *Guidelines for Establishing the Green Financial System* ("GEGFS"), which provided information on how to transition the economy to become supportive of environmental interests. Among other pieces of information, the guidelines provide statements on how private capital can invest in eco-friendly companies.[93] This guidance from the government has led to high demand for ESG related activities, where the green loan balance rose to $1.16 trillion in China by the end of 2018.[94] Additionally, the Chinese government has hastened the transition to ESG investment by mandating that all listed companies disclose ESG information by 2020.[95]

While China is still in the process of transitioning its economy so that it is receptive of ESG policies, the results from the GEGFS are promising. With that said, China demonstrates the importance of government towards encouraging ESG investments. Despite entering late into ESG investing compared to others, such as Japan, the recent support from the government will steer the country to match the level of the EU and the US. In addition, given the scale of the Chinese economy, the support of the government towards ESG investing may lead to China becoming a major player in ESG investing in the future.

United States

Compared to other governments, the United States has been more divided on ESG investing. The federal government seems to shift back and forth on environmental policy depending on the occupant of the White House. President Obama committed to signing the Paris Climate Agreement,[96] however, once President Trump was inaugurated, the U.S. withdrew from the agreement in 2017.[97] This illustrates the difference in political opinion on the U.S. approach to climate change. Therefore, depending on which party enters the White House, the federal government's approach to ESG investing will subsequently be influenced.

A demonstration of how federal policy can be affected by who controls the White House is the recent proposed rule from the Department of Labor with regards to ESG factors being considered in pensions covered by ERISA. Under this new regulatory guidance, fiduciaries for pensions can consider ESG factors, however, there is a burden placed on fiduciaries on proving whether there would be clear pecuniary benefits from doing so.[98] It does not make it impossible to consider ESG investments, but it does make inclusion difficult. Given that only 3% of 401(k) plans have ESG funds, this decision highlights the tendencies of the current federal government to discourage ESG investments.[99] This recent move from the federal government illustrates a contrast between how ESG investments are perceived in the U.S. government as opposed to the EU and Japan. This regulation is problematic as it can deter any consideration of ESG factors in corporate pension funds.[100]

However, as the federal government retracts from ESG investments, we see states act as advocates for ESG investing. Despite the U.S. government backing away from the Paris Climate Agreement, 25 states have become signatories, highlighting a difference in opinion between the state and federal governments.[101] Other examples of this can be seen in California, where the California Teachers Retirement System ("CALSTRS") pension program has integrated ESG factors into their investment practices.[102] In Illinois, the state government passed the Sustainability Act, which requires all public firms who manage public funds to implement and publish sustainable investment policies.[103] Additionally, state programs like California's CALSTRS have signed onto the UN PRI.[104] Therefore, even if there seems to be a shift away from ESG investing on the national level, there is still support for ESG investing on the state level. This is reflective of the general trend of governments embracing ESG factors into investment decisions.

In July 2020, the Biden campaign released a plan regarding the climate: his administration plans to devote "$2 trillion over four years" into clean energy, aiming for a total transition by 2035.[105] While the plan differs from the Green New Deal and the European Green Deal, it is shares similarities. As we can see, this proposal contrasts sharply with the pushback from the Trump administration on ESG investing. If this plan were to be implemented, the United States would see a more united approach between the federal and certain state governments that support ESG investing. Furthermore, democratic lawmakers' criticism of the recent Department of Labor guidance on ESG investing for ERISA pension plans[106] highlight the type of partisanship that exists and how it can influence ESG investment policy. Should there be a change in the administration in November, ESG policy in the U.S. will certainly shift. The United States may be able to catch up to the European Union if it is able to establish a friendlier environment for ESG investments. In our view, there is a steady move towards supporting ESG policies, as demonstrated by state governments. Even if the current administration wins re-election, continuing its less than supportive position of ESG-friendly policies, we believe that there is bound to be one driving the evolution of ESG as the way to invest in the future.

The Complexity of "S" – A Spotlight on "Social" in ESG

Environmental, Social and Governance goals are not a monolith, although they often work in tandem, and are constantly shifting and moving forward in their baseline principles. Environmental goals can only progress so far: if we were to focus on the environment as a society, we would eventually reach a point of neutral environmental impact, otherwise we live with the looming threat of the climate crisis changing the world as we know it. Social and Governance goals can always be improved, although governance has had a significant head start in the corporate world. Each facet changes at a different pace, produces different gravities of impact, and varies in difficulty to implement. However, in ESG discussions, the "S" for social factors is commonly avoided. Why is that?

Although media attention is usually drawn to climate change deniers and loud protestors, the majority of investors coalesce around the need to take climate action and support governance goals. Goldman Sachs stated that starting July 1st they would not take a company public unless they had one "diverse" member on the board.[107] Allianz' ESG Investor Sentiment Study found that survey respondents seemed to be highly in favor of environmental and governance issues but lagged behind in social categories. Compared to 95% of respondents who viewed carbon emissions as having a strong impact on their decision to do business with a company, only 77% considered racial equality as having a strong impact, followed by 73% for gender equality and merely 58% for LGBTQ+ equality.[108] Societal considerations notably lag behind in the business and investment world. Clearly Social factors are still divisive and lack consensus, although a lack of social considerations may also be attributed to inconsistent ratings measuring S factors.

But why exactly are we avoiding Social factors? Is it that only one fund is available in the US that focuses on businesses with strong racial and ethnic diversity policies?[109] Or is it that 97.8% of the $69 trillion asset management industry in the U.S. is managed by firms owned by white men, despite only making up approximately 37.5% of the US population?[110, 111] Maybe it is because only 8% of professional investors are women.[112] Some consider gun control and universal healthcare vital to an S score, yet others may not be so sure. Some Social considerations fit into governance factors, like diverse boards, equity in the workplace, and holistic recruiting processes. With an increasing proportion of young people who choose jobs, investments and consumer products on social factors, businesses and investors have a vested interest in rapidly improving societal considerations. But, how is this factor best evaluated and integrated into the investment process?

"S" factors perennially see controversy and raise the question of which medium – besides investments – would be best suited to address these social problems. While most public pension funds refused to invest in companies that did business in South Africa under Apartheid, some called for a governmental approach, rather than one based on exclusionary investment. Should every social issue we face today be solved through investing, or should we, as the Next Generation, focus our attention to how our government can often more effectively and easily push for social change? We must judiciously distinguish between what issues are best solved through protest, through government, through investing, or through other mechanisms.

ESG has evolved to encompass much more than its exclusionary genesis derived from social factors alone. Most ESG metrics and data today better account for Environmental and Governance goals, but the "S" for Social is still included in the title of the investing strategy. Incorporating the "S" needs to be done carefully: without consensus of a social target, investment will quickly become muddled and confused, threatening progress made in governance and environmental goals. When Social factors are outside a business' governance strategy, measurement and subjectivity present hurdles to incorporate S into ESG.

While we think ESG will be integrated into mainstream and neutral portfolios, we must remain conscious of the latent power and divisiveness of Social factors. Therefore, we think that choices for investing based on social impact will not be generally integrated, but instead many sustainable choices with differing approaches to Social factors will be offered to supplement demand. For example, Blackrock did this by creating an ETF excluding gun companies.[113] It is important not to understate the fluidity, local values-driven, and individualistic nature of social factors and recognize that the solutions to many social causes are better achieved through legislation rather than investment. We think the investment industry should already have integrated E, S, and G factors, and that the government should have aided in that transition, but we inherit a world where that is not a reality. Therefore, pragmatically, we must continue considering the most efficient ways to implement that change that seems inevitable.

Conclusion

ESG investing will soon be the norm, leading to The End of ESG as a separate category. Emerging ESG research continues to suggest that ESG funds are more resilient and produce greater alpha. Institutional investors are embracing ESG strategy with public pension fund and endowments leading the way while private pension funds are facing obstacles due to federal regulation, but that may change when the Next Generation assumes more leadership roles. Not only are the Next Generation interested in ESG factors, but the Current Generation is as well. Though some governments lag behind in encouraging ESG investments, it is evident that the world is slowly integrating ESG factors as the new norm of investing. Indeed, we may see that ESG will simply be another fundamental indicator for investors and managers in the future. We think that the tailwinds to ESG normalization of investment performance, demand and government policy support outweigh the headwinds of partisan policy and social ambiguity.

ESG will become the only way to invest in the U.S. due to performance, demand, and government action. However, there are specific social issues that may remain separate from integration as a result of lack of consensus or difficulty in measurement. Unless a systematic approach is taken by all actors in the investing world, businesses will face another ESG crisis the next time a social movement or pandemic hits, and this conversation will be had eternally.

Author’s Note

Principles-based investing is a complex topic, with more perspectives than there are interested people. This is evidenced by the overwhelming volume of published papers, analysis, articles and even simply by the number of names used to describe this type of investing. We are not attempting to replicate the deep analysis performed by many, or the lengthy papers on the future or taxonomy of principles-based investing by firms such as Accenture, McKinsey, BlackRock and others. We are not looking at every aspect of principles-based investing – for example, the issuance of Green or Social bonds. In addition, we have not included any analysis of stewardship and proxy voting, or inconsistencies presented by ESG data providers, clearly critical elements of how an asset manager executes a principles-based strategy. Instead, we have tried to research and produce a top-down view, from our perspective, of whether principles-based investing will become the normal way to invest, as opposed to a separate category of investing. The Authors would like to acknowledge the contribution of Melissa Zhang, MBA/MS EIPER Candidate, Class of 2022, Stanford Graduate School of Business.

[1] Counts, Cecelie. "Divestment Was Just One Weapon in Battle Against Apartheid - NYTimes.com." The New York Times - Breaking News, World News & Multimedia. Last modified January 27, 2013.

https://www.nytimes.com/roomfordebate/2013/01/27/is-divestment-an-effective-means-of-protest/divestment-was-just-one-weapon-in-battle-against-apartheid

[2] Hale, Jon. "Sustainable Funds US Landscape Report." Morningstar | Empowering Investor Success. Last modified February 14, 2020.

https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/Sustainable_Funds_US_Landscape_021920.pdf?utm_source=eloqua&utm_medium=email&utm_campaign=&utm_content=20871.

[3] Hale, Jon. "Moving Beyond Exclusion: Sustainable Investing and Performance." Morningstar. Last modified June 2020.

https://images.mscomm.morningstar.com/Web/MorningstarInc/%7B14b21777-84e8-4472-b3ee-f345532a0b3f%7D_Moving-Beyond-Exclusion.pdf?utm_source=eloqua&utm_medium=email&utm_campaign=&utm_content=9074.

[4] "Investing Based on Your Principles." Fidelity investments. Last modified November 12, 2019.

https://institutional.fidelity.com/app/item/RD_9896409/investing-based-on-your-principles.html

[5] Counts, Cecelie. "Divestment Was Just One Weapon in Battle Against Apartheid - NYTimes.com." The New York Times - Breaking News, World News & Multimedia. Last modified January 27, 2013.

https://www.nytimes.com/roomfordebate/2013/01/27/is-divestment-an-effective-means-of-protest/divestment-was-just-one-weapon-in-battle-against-apartheid

[6] Kell, George, "The remarkable rise of ESG", Forbes, accessed Monday August 3rd.

https://www.forbes.com/sites/georgkell/2018/07/11/the-remarkable-rise-of-esg/#1fc824861695

[7] Hale, Jon. "Moving Beyond Exclusion: Sustainable Investing and Performance." Morningstar. Last modified June 2020.

https://images.mscomm.morningstar.com/Web/MorningstarInc/%7B14b21777-84e8-4472-b3ee-f345532a0b3f%7D_Moving-Beyond-Exclusion.pdf?utm_source=eloqua&utm_medium=email&utm_campaign=&utm_content=9074.

[8] Ibid

[9] Blackrock Investment Institute, “Sustainability; the future of investing”, Global Insights. Last accessed July 28 2020.

https://www.blackrock.com/us/individual/literature/whitepaper/bii-sustainability-future-investing-jan-2019.pdf

[10] Morningstar, “Does Investing Sustainably Mean Sacrificing return?”, Morningstar, last modified March 2018.

https://www-prd.morningstar.com/content/dam/marketing/shared/pdfs/Research/Does_Investing_Sustainably_Mean_Sacrificing_Returns_March2018.pdf?utm_source=eloqua&utm_medium=email&utm_campaign=&utm_content=17484

[11] Dhingra, Gautam, “ESG Investing: Can you have your cake and eat it too?”, Enterprising Investor, last modified September 2019.

https://blogs.cfainstitute.org/investor/2019/09/03/esg-investing-can-you-have-your-cake-and-eat-it-too/

[12] Morgan Stanly, “Sustainable Reality”, Morgan Stanley institute for sustainable investing, last modified 2019.

https://www.morganstanley.com/content/dam/msdotcom/ideas/sustainable-investing-offers-financial-performance-lowered-risk/Sustainable_Reality_Analyzing_Risk_and_Returns_of_Sustainable_Funds.pdf

[13] Friede, Gunnar and Busch, Timo and Bassen, Alexander, ESG and Financial Performance: Aggregated Evidence from More than 2000 Empirical Studies (October 22, 2015). Journal of Sustainable Finance & Investment, Volume 5, Issue 4, p. 210-233, 2015, DOI: 10.1080/20430795.2015.1118917, Available at SSRN:

https://ssrn.com/abstract=2699610

[14] Leale-Green, Ben. Is ESG a Factor? The S&P 500 ESG Index's Steady Outperformance, last modified July 2020.

https://www.indexologyblog.com/2020/06/17/is-esg-a-factor-the-sp-500-esg-indexs-steady-outperformance/

[15] S and P 500 ESG. "S and P 500 ESG." Last access July 28th 2020.

https://www.spglobal.com/spdji/en/indices/equity/sp-500-esg-index/#overview

[16] Ibid

[17] Leale-Green (n 14)

[18] Segal, Julie, "ESG Has Failed to Outperform for Years. Is this a Fix?" Institutional Investor, last modified May 2020.

https://www.institutionalinvestor.com/article/b1lm2j93w09cv9/ESG-Has-Failed-to-Outperform-for-Years-Is-this-a-Fix

[19] S and P 500. "S and P 500 Index" Last access July 28th 2020.

https://www.marketwatch.com/investing/index/spx/charts

[20] Long, Heather, "Fed chair warns of 'heartbreaking' scenario as U.S. economy suffers worst first quarter since Great Recession", The Washington Post, last modified April 2020.

https://www.washingtonpost.com/business/2020/04/29/gdp-coronavirus/

[21] Ibid

[22] Ibid

[23] Clark, Robert., Copley, Micheal., and Whieldon, Ester, "Major ESG Investments funds outperforming S and P 500 during Covid-19", S and P Global intelligence, last modified April 2020.

https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/major-esg-investment-funds-outperforming-s-p-500-during-covid-19-57965103

[24] Hale, John. "Sustainable Stock Funds Held Their Own in Second-Quarter Rally" Morningstar, last modified July 8th.

https://www.morningstar.com/articles/991091/sustainable-stock-funds-held-their-own-in-second-quarter-rally?utm_campaign=newsletter_email&utm_source=sendgrid&utm_medium=email

[25] Morningstar Manager Research, "ESG funds show resilience during COVID-19 sell-off", Morningstar last modified May 2020.

https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/Global_ESG_Q1_Flow_Report.pdf?utm_source=eloqua&utm_medium=email&utm_campaign=&utm_content=22447

[26] Skinner, Liz "Q&A: Harvard impact investing expert on proposed ESG rule", last accessed July 31 2020.

https://www.esgclarityus.com/harvard-impact-expert-on-esg-proposal/

[27] BlackRock. "BlackRock Client Letter | Sustainability." BlackRock. Last modified 2020.

https://www.blackrock.com/corporate/investor-relations/blackrock-client-letter

[28] Wellington. Wellington Management. Last modified 2018.

https://www.wellington.com/en/wp-content/uploads/2018/01/wellington_management_esg_integration_philosophy_US.pdf

[29] Allianz Global Investors. "Sustainable investing is in our DNA" Allianz Global Investors. Last Modified June 2020.

https://www.allianzgi.com/en/our-firm/esg/esg-research

[30] Schroders. "Schroders supports the sustainable development goals", Schroders last modified July 2020.

https://www.schroders.com/en/us/strategic-capabilities/sustainability/?gclid=CjwKCAjw0_T4BRBlEiwAwoEiAczN0W8d1cuUk034iDqYCrWq-yhlGi7LQOaOYF5AuEuTmmSJNjceoRoCm8MQAvD_BwE&gclsrc=aw.ds

[31] Fidelity International. “How does Fidelity integrate ESG factors into their investment decision?” Fidelity last modified July 2020.

https://www.fidelity.com.au/why-fidelity/commitment-to-sustainable-investing/faqs/how-does-fidelity-integrate-esg-factors-into-their-investment-decisions/

[32] McGrath, Charles. "80% of Equity Market Cap Held by Institutions." Pensions & Investments. Last modified April 25, 2017.

https://www.pionline.com/article/20170425/INTERACTIVE/170429926/80-of-equity-market-cap-held-by-institutions

[33] Wirz, Matt. "Universities Cut Oil Investments As Student Activism Builds." WSJ. Last modified July 14, 2020.

https://www.wsj.com/articles/universities-cut-oil-investments-as-student-activism-builds-11594719181?st=uxgibwifm79vk36&reflink=article_email_share&fbclid=IwAR3atCbeDJf9cCmbZ8ZcJwwSiJguMo1k1C_xdeyhWha9yVHerXJ09XHhgbU

[34] Ibid

[35] Ibid

[36] GoFossilFree. "Overview.” Fossil Free: Divestment. Last modified 2020.

https://gofossilfree.org/divestment/commitments/

[37] Bogner, Ira G., Russell Hirschhorn, Seth Safra, Steven Weinstein, Adam Scoll, and Kyle Hansen. "Department of Labor Proposal Would Curtail ESG Investing." Employee Benefits & Executive Compensation Blog. Last modified July 1, 2020.

https://www.erisapracticecenter.com/2020/07/department-of-labor-proposal-would-curtail-esg-investing/

[38] Rudden, Jennifer. "Value of Retirement Assets in the United States from 1995-2019." Statista. Last Modified May 8, 2020.

https://www.statista.com/statistics/940498/assets-retirement-plans-by-type-usa/

[39] Chasan, Emily. "ESG Funds Are Ready For Your Retirement Plan." BloombergQuint. Last modified May 20, 2020.

https://www.bloombergquint.com/technology/pandemic-shows-esg-funds-are-ready-for-your-retirement-plan

[40] Bogner, Ira G., Russell Hirschhorn, Seth Safra, Steven Weinstein, Adam Scoll, and Kyle Hansen.

[41] BlackRock. “Re: Financial Factors In Selecting Plan Investments; 29 CFR Part 2550; RIN 1210-AB95.” Letter, July 30, 2020.

https://www.blackrock.com/corporate/literature/publication/dol-financial-factors-in-selecting-plan-investments-073020.pdf.

[42] Bradford, Hazel. "Public Funds Taking the Lead in Spectacular Boom of ESG." Pensions & Investments. Last modified August 19, 2019.

https://www.pionline.com/special-report/public-funds-taking-lead-spectacular-boom-esg

[43] Zaidi, Ali. “States Take Lead on ESG Investment Regulations While Feds Stand Still: Publications.” Kirkland & Ellis LLP, August 20, 2020.

https://www.kirkland.com/publications/article/2019/10/states-take-lead-on-esg-investment-regulations-whi

[44] Ibid.

[45] Ibid.

[46] WOLL, Lisa. "State and Local Governments Eye ESG Investing Strategies for Returns and Impact." PLANSPONSOR | Insight on Plan Design & Investment Strategy. Last modified June 25, 2019.

https://www.plansponsor.com/state-local-governments-eye-esg-investing-strategies-returns-impact/

[47] "The “Greater” Wealth Transfer – Capitalizing on the Intergenerational Shift in Wealth." Accenture. Last modified 2012.

https://www.accenture.com/us-en/insight-capitalizing-intergenerational-shift-wealth-capital-markets-summary

[48] "8 out of 10 Millennials Now Prioritise Responsible Investing – and They're Right." DeVere Group. Last modified January 2, 2020.

https://www.devere-group.com/news/8-out-of-10-millennials-now-prioritise-responsible-investing-and-theyre-right.aspx

[49] Morgan Stanley. "Sustainable Signals: Individual Investor Interest Driven by Impact, Conviction and Choice." Morgan Stanley | Institute for Sustainable Investing. Last modified September 2019.

https://www.morganstanley.com/pub/content/dam/msdotcom/infographics/sustainable-investing/Sustainable_Signals_Individual_Investor_White_Paper_Final.pdf

[50] Kenway, Natalie. "Baby Boomers ESG Fund Trading Activity Soars 107% – ESG Clarity." ESG Clarity. Last modified June 9, 2020.

https://esgclarity.com/baby-boomers-esg-fund-trading-activity-soars-107/

[51] Allianz. "ESG | Ethics and Investing: How environmental, social, and governance issues impact investor behavior." Annuities and Life Insurance for Retirement | Allianz Life. Last modified May 2019.

https://www.allianzlife.com/-/media/files/allianz/pdfs/esg-white-paper.pdf?la=en&hash=1DE90B73C82847769EAB94B29A819834E8984C6F

[52] Morgan Stanley. "Sustainable Signals: Individual Investor Interest Driven by Impact, Conviction and Choice." Morgan Stanley | Institute for Sustainable Investing. Last modified September 2019.

https://www.morganstanley.com/pub/content/dam/msdotcom/infographics/sustainable-investing/Sustainable_Signals_Individual_Investor_White_Paper_Final.pdf

[53] Wyman, Oliver. "ESG Interactive." Marsh & McLennan Companies. Accessed July 28, 2020.

https://www.mmc.com/esg-interactive.html

[54] Ibid.

[55] "ESG as a Workforce Strategy." Marsh & McLennan Companies. Last modified 2020.

https://www.mmc.com/content/dam/mmc-web/insights/publications/2020/may/ESG_workforce_strategy_Part_I.pdf

[56] Ibid.

[57] Duffin, Erin. "Population Distribution in the United States in 2019, by generation." Statista. Last modified July 20, 2020.

https://www.statista.com/statistics/296974/us-population-share-by-generation/

[58] Pulliam, Christopher, and Isabel V. Sawhill. "Six Facts About Wealth in the United States." Brookings. Last modified June 28, 2019.

https://www.brookings.edu/blog/up-front/2019/06/25/six-facts-about-wealth-in-the-united-states/

[59] Lauricella, Tome, and Jess Liu. "Sustainable Funds Weather Downturns Better Than Peers." *Morningstar, Inc*, 15 June 2020.

www.morningstar.com/articles/988114/sustainable-funds-weather-downturns-better-than-peers

[60] US Census Bureau. "Wealth, Asset Ownership, & Debt of Households Detailed Tables: 2016." The United States Census Bureau. Accessed July 17, 2020.

https://www.census.gov/data/tables/2016/demo/wealth/wealth-asset-ownership.html

[61] "Socially Responsible Investing and ESG: It's Not Just a Millennial Trend." Business Wire. Last modified August 12, 2019.

https://www.businesswire.com/news/home/20190812005374/en/

[62] Kenway, Natalie. "Baby Boomers ESG Fund Trading Activity Soars 107% – ESG Clarity." ESG Clarity. Last modified June 9, 2020.

https://esgclarity.com/baby-boomers-esg-fund-trading-activity-soars-107/

[63] Holger, Dieter. "What Generation Is Leading the Way in ESG Investing? You'll Be Surprised." WSJ. Last modified September 11, 2019.

https://www.wsj.com/articles/what-generation-is-leading-the-way-in-esg-investing-youll-be-surprised-11568167440

[64] Morgan Stanley. "Sustainable Signals: Individual Investor Interest Driven by Impact, Conviction and Choice." Morgan Stanley | Institute for Sustainable Investing. Last modified September 2019.

https://www.morganstanley.com/pub/content/dam/msdotcom/infographics/sustainable-investing/Sustainable_Signals_Individual_Investor_White_Paper_Final.pdf

[65] Ibid.

[66] Allianz. "ESG | Ethics and Investing: How environmental, social, and governance issues impact investor behavior." Annuities and Life Insurance for Retirement | Allianz Life. Last modified May 2019.

https://www.allianzlife.com/-/media/files/allianz/pdfs/esg-white-paper.pdf?la=en&hash=1DE90B73C82847769EAB94B29A819834E8984C6F

[67] "The "Greater" Wealth Transfer – Capitalizing on the Intergenerational Shift in Wealth." Accenture. Last modified 2012.

https://www.accenture.com/us-en/insight-capitalizing-intergenerational-shift-wealth-capital-markets-summary

[68] Wyman, Oliver. "ESG Interactive." Marsh & McLennan Companies. Accessed July 28, 2020.

https://www.mmc.com/esg-interactive.html

[69] "ESG as a Workforce Strategy." Marsh & McLennan Companies. Last modified 2020.

https://www.mmc.com/content/dam/mmc-web/insights/publications/2020/may/ESG_workforce_strategy_Part_I.pdf

[70] "What Are the Principles for Responsible Investment?" PRI, December 1, 2017.

https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-are-the-principles-for-responsible-investment

[71] "Annual Report 2018." PRI, 2018, p.67.

https://d8g8t13e9vf2o.cloudfront.net/Uploads/g/f/c/priannualreport_605237.pdf

[72] "Japan: Government Pension Fund Signs up to UN Principles of Responsible Investment: Business & Human Rights Resource Centre." Japan: Government Pension Fund signs up to UN Principles of Responsible Investment | Business & Human Rights Resource Centre, October 2, 2015.

https://www.business-humanrights.org/en/japan-government-pension-fund-signs-up-to-un-principles-of-responsible-investment

[73] "A European Green Deal." European Commission - European Commission, July 8, 2020.

https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

[74] Todts, William. "Time's Nearly up: so, What Has Juncker's Commission Done to Advance." Transport and Environment, May 8, 2019.

https://www.transportenvironment.org/newsroom/blog/time%E2%80%99s-nearly-so-what-has-juncker%E2%80%99s-commission-done-advance-green-agenda

[75] "EU Taxonomy: What's New in the Final Recommendations?" Nordea, March 30, 2020.

https://insights.nordea.com/en/sustainable-finance/eu-taxonomy-final-recommendations/

[76] "What Is Sustainable Finance." European Commission - European Commission, July 3, 2020.

https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/what-sustainable-finance_en

[77] Ghosh, Iman. "Visualizing the Global Rise of Sustainable Investing." Visual Capitalist, February 5, 2020.

https://www.visualcapitalist.com/rise-of-sustainable-investing/

[78] Nagai, Asako, and Karlyn Adams. “An Exciting New Era for ESG and Socially Responsible Investing in Japan: Blog.” BSR, April 18, 2018.

https://www.bsr.org/en/our-insights/blog-view/esg-socially-responsible-investing-japan-exciting-new-era

[79] Fronda, Aaran. “Japan Steps up Corporate Governance Code.” World Finance, July 16, 2015.

https://www.worldfinance.com/strategy/japan-steps-up-corporate-governance-code

[80] Woodland, Emily. “Abe's Green Arrow: the Rise of ESG Investing in Japan.” AMP Capital, October 21, 2019.

https://www.ampcapital.com/americas/en/insights-hub/articles/2019/october/abes-green-arrow-the-rise-of-esg-investing-in-japan

[81] “First Systematic Guidance and Policy Recommendations Compiled Concerning ESG and Intangible Assets Investment Release of the Ito Review 2.0.” First Systematic Guidance and Policy Recommendations Compiled Concerning ESG and Intangible Assets Investment(METI). Accessed July 28, 2020.

https://www.meti.go.jp/english/press/2017/1026_003.html

[82] Ibid.

[83] “Japan's Corporate Governance Code.” JPX - Tokyo Stock Exchange, 2018, p. 3.

[84] “Sustainable Investing in Japan: An Agenda for Action.” Sasawaka Peace Foundation, September 2019.

[85] “Green Bond Guidelines.” Ministry of the Environment, 2017, p.39.

[86] “ESG Country Snapshot: Japan -- Land of the Rising ESG.” Responsible Investor. Accessed July 28, 2020.

https://www.responsible-investor.com/articles/esg-country-snapshot-japan

[87] Ibid. “Sustainable Investing in Japan: An Agenda for Action.”

[88] “China's Bond Market: A Playground of Untold Potential | Bloomberg Professional Services.” Bloomberg.com. Bloomberg, November 12, 2019.

https://www.bloomberg.com/professional/blog/chinas-bond-market-a-playground-of-untold-potential/

[89] Jensen, Greg. "Balancing Chinese Assets Offers a Rare Opportunity for Investors." Bridgewater. Last modified May 26, 2020.

https://www.bridgewater.com/research-and-insights/balancing-chinese-assets-offers-a-rare-opportunity-for-investors

[90] “Global Sustainable Investment Review - 2016.” Global Sustainable Investment Alliance, 2016.

[91] Reynolds, Fiona. “ESG Investment Starts to Gain a Foothold in China.” Nikkei Asian Review. Nikkei Asian Review, January 6, 2020.

https://asia.nikkei.com/Opinion/ESG-investment-starts-to-gain-a-foothold-in-China

[92] Luo, Nan. “Development of ESG Investing in China.” Allocate to China. Accessed August 4, 2020.

https://www.atcinitiative.org/development-of-esg-investing-in-china

[93] Pating, Alfonso. “China Leveraging Green Finance for a Green Economic Recovery.” NRDC, July 1, 2020.

https://www.nrdc.org/experts/alfonso-pating/china-leveraging-green-finance-green-economic-recovery

[94] Ibid.

[95] Ibid. Luo, Nan.

[96] “President Obama: The United States Formally Enters the Paris Agreement.” National Archives and Records Administration. National Archives and Records Administration. Accessed July 2020.

https://obamawhitehouse.archives.gov/blog/2016/09/03/president-obama-united-states-formally-enters-paris-agreement

[97] "On the U.S. Withdrawal from the Paris Agreement - United States Department of State." U.S. Department of State. U.S. Department of State, December 2, 2019.

https://www.state.gov/on-the-u-s-withdrawal-from-the-paris-agreement/

[98] "U.S. Department of Labor Proposes New Investment Duties Rule: U.S. Department of Labor." U.S. Department of Labor Seal. Accessed July 2020.

https://www.dol.gov/newsroom/releases/ebsa/ebsa20200623

[99] News, Bloomberg, Kenneth Corbin, Ryan W. Neal, Erika Wheless, Jessica Mathews, Ann Marsh, Andrew Welsch, and Andrew Shilling. "ESG Funds Are Ready for Your Client's Retirement Plan, Study Finds." Financial Planning. Financial Planning, May 20, 2020.

https://www.financial-planning.com/articles/esg-funds-are-ready-for-your-retirement-plan-study-finds

[100] "Labor Dept. Seeks to Restrict Social Goals in Retirement Investing." The New York Times. The New York Times, June 24, 2020.

https://www.nytimes.com/2020/06/24/business/labor-retirement-investing.html?referringSource=articleShare

[101] Meyer, Robinson. "Dozens of States Want to Keep America's Broken Climate Promise." The Atlantic. Atlantic Media Company, December 9, 2019.

https://www.theatlantic.com/science/archive/2019/12/24-states-are-still-paris-theyre-also-cutting-emissions/603250/

[102] Zaidi, Ali.

[103] Ibid.

[104] "UN PRI Signatory Directory." PRI. Accessed July 30, 2020.

https://www.unpri.org/searchresults?qkeyword=california

[105] Epstein, Jennifer, Ari Natter, and Jennifer A. Dlouhy. "Biden to Call for $2 Trillion in Spending on Clean Energy." Bloomberg.com. Last modified July 31, 2020.

https://www.google.com/amp/s/www.bloomberg.com/amp/news/articles/2020-07-14/biden-to-call-for-2-trillion-in-clean-energy-spending

[106] Manganaro, John. "DOL's Proposed ESG Restrictions Criticized by Senate Democrats." PLANSPONSOR | Insight on Plan Design & Investment Strategy. Last modified July 15, 2020.

https://www.plansponsor.com/dols-proposed-esg-restrictions-criticized-senate-democrats/

[107] Elsesser, Kim. "Goldman Sachs Won't Take Companies Public If They Have All-Male Corporate Boards." Forbes. Last modified January 23, 2020.

https://www.forbes.com/sites/kimelsesser/2020/01/23/goldman-sachs-wont-take-companies-public-if-they-have-all-male-corporate-boards/#8b98c189475a

[108] Allianz. "ESG | Ethics and Investing: How environmental, social, and governance issues impact investor behavior." Annuities and Life Insurance for Retirement | Allianz Life. Last modified May 2019.

https://www.allianzlife.com/-/media/files/allianz/pdfs/esg-white-paper.pdf?la=en&hash=1DE90B73C82847769EAB94B29A819834E8984C6F

[109] "NAACP." Impact Shares | Fund Site. Last modified July 27, 2020.

https://impactetfs.org/naacp-etf/

[110] Lerner, Josh. "Diversifying Investments: A Study of Ownership, Diversity, and Performance in the Asset Management Industry." Harvard Business School, Bella Research Group. Last modified January 2019.

https://kf-site-production.s3.amazonaws.com/media_elements/files/000/000/281/original/2019_KF_DIVERSITY_REPORT-FINAL.pdf

[111] "U.S. Census Bureau QuickFacts: United States." Census Bureau QuickFacts. Last modified July 1, 2019.

https://www.census.gov/quickfacts/fact/table/US/PST045219#

[112] Gompers, Paul, and Silpa Kovvali. "Finally, Evidence That Diversity Improves Financial Performance." Harvard Business Review. Last modified July 1, 2018.

https://hbr.org/2018/07/the-other-diversity-dividend

[113] Crigger, Lara. "BlackRock To Launch Gun-Free ESG ETFs." ETF.com. Last modified April 6, 2018.

https://www.etf.com/sections/features-and-news/blackrock-launch-gun-free-esg-etfs?nopaging=1