Video Segment 3: Trends in ESG Investing and How Investors Are Creating Impact

"The first thing our research says is that if a company could just make itself a little greener, more ESG-friendly, that's going to help the stock price." -Dr. Luke Taylor

NOTE-TAKING GUIDE

Dr. Taylor has generated interesting academic research about the returns on ESG investing strategies. How does his research answer the following questions?

- Should investors expect high returns from ESG investing strategies?
- Have we become more concerned about climate change in the past eight years?
- How does that concern impact the performance and outperformance of green (environmentally-friendly) stocks?
- Would returns still be strong if we hadn't cared so deeply about the environment?

Professor Taylor's ESG investing research also has important implications for corporate governance and the decisions of boards of directors. What are the two main conclusions?

1.

2.

This academic research suggests that the past strong performance of ESG investing strategies doesn't necessarily mean these strategies will continue to generate high returns in the future. And yet, the findings also reflect positive trends for society and for the environment. As an investor, would this be a tradeoff you are willing to accept – less robust returns down the road for a cleaner environment and more ESG-friendly corporate policies? What motivates you as an ESG investor?

Explain this quote from Professor Taylor: "ESG investors alone are not going to change the world."

THE LANGUAGE OF BUSINESS

Asset Management

Company

Consumer

Corporate Board of Directors

Corporate Director

Corporate Governance

Data

Economist

The Economy

Executive Team

Investment Portfolio

Investor

Operations

Product

Public Policy

Renewable Energy

Service

Shorting

Social Impact

Stock

Stock Market

Supply and Demand

Sustainability

Academic Research: Higher-education faculty, like Wharton School professors, examine problems and situations to gather data and insight that might help shed light on subjects and influence public policy.

Capital: Money or other assets owned by someone that are used to start a company or make an investment.

Carbon Tax: A tax on fossil fuels, especially those used by motor vehicles, that is meant to limit the emission of carbon dioxide.

Climate Change: The long-term shifts in temperatures and weather patterns that are increasingly caused by human activity, like the burning of fossil fuels that releases greenhouse gases into the atmosphere.

Climate Policy: Public policy resulting from climate change.

Coal Company: A company that mines or produces coal, a fossil fuel thought to contribute to greenhouse gas emissions that can lead to climate change.

Cost of Capital: A company raises capital from investors and other sources to launch, grow and expand. Here, Dr. Taylor is referring to the cost of the capital a company seeks in the market to do any one of these things.

Engine No. 1 A hedge fund that is part of a new breed of shareholder activists believing that social good is important to a company's value and impacts the bottom line. Founded in 2020, Engine No. 1 is all about active ownership of the companies in which it invests. It is perhaps most well-known for buying a stake in ExxonMobil, an international oil and gas company, and advocating for climate policy.

ESG: ESG stands for Environmental, Social and Governance and refers to a system for how to measure the sustainability of a company. It is an evaluation of a firm's beliefs and attitudes about social and environmental factors. Companies, and their corporate boards of directors, are thinking hard about how to incorporate ESG factors into their business strategies to appeal to investors, customers and other stakeholders. And investors are turning to ESG rating firms and others to screen their investments on these various factors. Effective and evolving governance is helping firms meet their ESG goals.

ESG Investing: When investors (often interested in sustainability) apply non-financial factors like environmental, social and governance to analyze a stock's performance and long-term potential.

ESG Returns: The amount of return or profit that an ESG-related investment generates.

Expected Future Returns: The return that you expect on an asset (like a stock) in the future.

Green Companies: Environmental-sound companies, either through the products they make or how deeply they care about environmental concerns in their business practices.

Green Stocks: Environmentally-friendly stocks.

Market Outperformance: When a stock outperforms a specific index or the overall market.

Reallocate: Distribute resources (money) in a different way, such as toward more ESG investing.

Solar Energy: An alternative or renewable energy that is generated from the sun.

Solar Farm: A land area where a large number of solar panels are set up to generate electricity from the sun.

Stock Price: The price of every share issued by a publicly traded company that is mean to reflect the value of the company. Stock prices rise and fall in response to external and internal factors.

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