Investing to Make Change: Building a Sustainable Future

In the next 25 years, the next generation is expected to inherit $70 trillion in assets in the U.S. A key focus for this group is incorporating environmental, social and governance (ESG) factors into the stewardship of their wealth.¹

Once viewed as an outlier, ESG investing is gathering momentum. In its most recent report, the Global Sustainable Investment Alliance found that at the start of 2020, global sustainable investment assets under management reached $35.3 trillion across the United States, Canada, Japan, Australasia and Europe, a 15 percent increase since 2018. This is approximately 36 percent of all professionally managed assets.² In the How to Make Change as a Working Professional and How to Make Change as an Investor sessions, panelists discussed how to meaningfully incorporate ESG into an investment strategy.

ESG can be used to measure how a company performs in each facet of society like an impact credit score. According to Rachel Snyder, associate in the Urban Investment Group at Goldman Sachs, “In traditional shareholder capitalism, meeting the needs of shareholders was the primary responsibility of companies. While this is still the goal, we are now seeing companies also account for the needs of all stakeholders – whether that’s the environment, communities and constituents we work with or employees.”

So how can ESG be incorporated into an investment strategy?

“Alignment, integration and impact (investing) are the three main approaches to ESG investing,” said Elissa Cook, associate in the Sustainable Solutions Group at Goldman Sachs Private Wealth Management.

Where alignment serves as a rules-based, data-driven approach to screening or limiting the investment universe, integration leverages ESG factors to find opportunities

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² Global Sustainable Investment Review 2020, Global Sustainable Investment Alliance, 2021
for outperformance or risk avoidance. Impact investing is an approach under the purview of private markets where investments generate measurable social or environmental impact alongside return for investors.

For example, in a portfolio that incorporates ESG investing, alignment would be a fund’s commitment not to invest in fossil fuel companies. A fund can apply an integration approach by seeking outperformance through investments in clean technology and supporting the achievement of a country’s renewable energy targets. An impact investment is one in a private company that generates measurable, positive impact on a community or the environment, while generating competitive rates of return.

“These approaches are not mutually exclusive,” Elissa said, “And maximizing your impact may mean taking a holistic approach and applying all three approaches across different parts of your portfolio.”

Goldman Sachs’ new investment initiative One Million Black Women also demonstrates this theme of intersectionality. “It’s $10 billion in investment capital and $100 million in philanthropic grants over 10 years to impact the lives of at least one million Black women,” said Waverly Middleton, analyst in the Sustainable Finance Group at Goldman Sachs.

“One Million Black Women has shown how you can invest for inclusive growth and social impact in a way that also considers the environmental impact,” she said. “Covid has had a devastating impact on Black communities, with a disproportionate number of hospitalization and death rates. We’re paying a lot of attention to how climate change is having an unequal impact on the most underserved communities.”

When it comes to your portfolio, there are several ways to integrate ESG values. Elissa analogized it to jumping in a pool. “You can either dip your toe in the water, wade slowly in or dive in.”

Sustainable investing should be approached as a process rather than a singular act. There is no one-size-fits-all method, but many clients start by identifying ways to weave ESG or impact strategies into one or two asset classes in their existing portfolio. Moving forward, they regularly evaluate new opportunities to achieve their ultimate sustainable investing goals.

Here are a few additional implementation tips:

• Integrate sustainable investing implementation into conventional asset management: Sustainable investing does not require a separate sleeve or carve out, and can be integrated as part of the investment process. It should be mindful of your existing asset allocation, tax implications and liquidity needs.

• Find the right tool for the right job: There are multiple approaches to sustainable investing (alignment, integration, impact) across public and private markets and it is important to understand the nuances of each approach. Be sure to evaluate them against your unique impact objectives.

• Avoid getting stuck: Find the easiest entry point, especially when working to incorporate multiple perspectives into your investment objective. For example, if you and your family are collectively deciding how to incorporate ESG into a portfolio, it can be easier to find themes (e.g., clean water) that you want to lean in to rather than those you want to avoid (e.g., oil and gas companies).
Creating an organized common language around ESG investing is a great way to get conversations started for both investors and companies. Though not purposefully built as an investment taxonomy, the United Nation’s Sustainable Development Goals (SDG) have emerged as a common framework when speaking about achieving certain sustainability goals.

“SDGs are a helpful framework for taxonomizing company impact,” said Sofie Alabaster, analyst in GS SUSTAIN at Goldman Sachs. An example, she explained, is affordable and clean energy, or SDG 7: What are the relevant subthemes for impact investing? Within these subthemes, what are some of the most investable opportunities in the public markets?

Asking questions and searching for assessable answers goes a long way towards integrating ESG into your long-term investment strategy.