Unpacking What ESG Investing Really Means

When you’re looking to make an investment, numbers are important, A.K.A. those long, number-heavy financial statements. But many investors are increasingly considering non-financial information about a company when making investment decisions, things like how it’s tackling climate change, diversity or equal pay. This type of investment strategy may be referred to by a few different names – like environmental, social and governance investing (or ESG investing, for short), socially responsible investing or mission-based investing. And while there are distinctions between those terms, there’s no doubt this type of strategy is becoming increasingly popular.

But what is ESG investing, and how can you incorporate it into your portfolio? We sat down with Abigail Pohlman, Head of the Sustainable Solutions Group for Goldman Sachs Private Wealth Management, to learn more about ESG investing and how Goldman Sachs approaches this type of investment strategy.

Q: What is ESG investing?

A: It can simply be defined as investing that incorporates sustainability principles and ESG criteria into the investment decision-making process.

ESG stands for environmental, social and governance. Here’s what each category broadly means:

- When you think about the **environmental** factors, they measure how business practices impact the world’s ecosystems – the air, the land, the water of our local and global communities.

- The **social** factors take into consideration the wellbeing and safety of employees and how businesses are interacting with the communities in which they operate.

- **Governance** factors evaluate the ethics and longevity of corporate management. They’re really asking: “How well is this business run?”

ESG can mean many different things to different people. And there is no agreed-upon definition of these specific criteria. Investors can focus broadly on a full suite of ESG criteria or focus in on a narrow set of one or two criteria that mean the most to them.
Q: What does ESG investing look like at Goldman Sachs?

A: We believe that ESG and sustainable investing are, first and foremost, investing. What we mean by that: We think that sustainable investing requires the same discipline and the same rigor as any other investment strategy – while still focusing on the goal of achieving financial returns.

We believe that the best strategies start by really understanding what our clients’ objectives are – both their ESG and investment objectives – and then identifying what’s available as an investable opportunity in the market.

Goldman Sachs has a tradition of environmental stewardship that goes back decades. In 2019, we made a 10-year commitment of $750 billion in financing, investing and advisory activities to address climate change and to achieve sustainable and inclusive growth. By the end of 2020, we were very proud to announce that we had achieved more than 20% of our sustainable finance goals. Finally, Goldman Sachs is committed to being an active participant in ESG efforts, which includes providing the necessary resources for our clients to incorporate ESG factors into their investment strategy.

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Q: What are some misconceptions about ESG investing?

A: One of the biggest misconceptions I think we see is that ESG investing is all one thing – and there’s a “right” way to do it. In fact, there are different tools and different approaches. For example, there are some strategies that are trying to be, or just to own, the market. And there are other strategies that are trying to beat or outperform the market.

There’s also this misconception that you must sacrifice returns in order to help make a positive impact. Goldman Sachs takes the position that ESG strategies not only perform well relative to their non-ESG counterparts, but in some cases they also have had the opportunity to outperform.

In many cases ESG is really just a matter of “good” investing. Two examples I’ll give you:

- A company that has better environmental policies and procedures is going to open itself up to some cost savings associated with water usage, potential permitting delays and legal costs.
- A company that has a more diverse leadership team and workforce has the potential to see lower recruiting costs, higher innovation and potentially higher productivity.

It’s also important to be wary of labels around ESG. Just because a strategy is labeled as “ESG” or “sustainable” does not mean that it’s a pure, 100% ESG strategy. And it may not meet your definition of what ESG is.

Take an ESG mutual fund. There may be some non-ESG investments within the fund, and there may not be a suitable ESG option to fulfill a specific need across the entire mutual fund’s investment criteria. Even though the fund may not take a pure approach, it’s still going to favor ESG investments – meaning companies with better ESG practices – and/or it’s going to “tilt” toward investments that are incorporating these factors.
Q: How does Marcus approach ESG investing?

A: Marcus Invest’s Goldman Sachs Impact portfolio is really the ESG-aligned option. Impact is one of the three investment strategies, and it’s designed to track market benchmarks while supporting sustainable business practices. The Impact portfolios use a combination of ESG and non-ESG exchange-traded funds (ETFs), given that there are still certain asset classes where an ESG approach is not yet mainstream or the options may be too costly.

The teams within Goldman Sachs that build our Impact portfolios weigh a variety of options. While we seek to maximize exposure to ESG-aligned ETFs, we want to make sure that we are delivering the best value possible to our customers without sacrificing performance or cost. Because ESG investing will continue to evolve, we view our Impact portfolio as a step in the right direction, with respect to maximizing ESG exposures without throwing our core investment framework to the wind. So it’s a work in progress, and we’ll continue to evolve our approach.

Q: What are you most excited about in the ESG space right now?

A: The increasing attention being paid to some of the more social factors, or the “S” factors. Historically, there’s been a lot of attention focused on, understandably and rightfully, climate-related metrics and climate-related disclosures.

The last year-plus, we’ve seen a strong focus on diversity, equity and inclusion. The data there tends to be a little bit more challenging, particularly around what’s being disclosed, what data is even available and how we can really, truly understand the diversity practices of any given company. I think there’s been a sea change around transparency and disclosure that I’m hoping will help us find more ways to invest creatively with capital markets to drive better and more inclusive growth over the long term.

The second thing I’m most excited about is the increasing access to sustainable investing – the fact that we can now make ESG-oriented strategies available for clients in our consumer business is really a huge win.

Q: How can I get started with ESG investing?

A: It’s important to get a good understanding of what ESG means. But, at the same time, knowing what ESG means to you and to your particular investment strategy. There’s not a one-size-fits-all approach, and you should make sure you know what your goals are before you get started.

The good news is there are an expanding number of options and ways to incorporate ESG into your investment portfolio. And ESG funds really make it easier than ever to tilt your portfolio toward a sustainable investing lens.

It’s also important to really recognize that big changes can start with very small steps. We very much view approaching ESG investing as a process and not a singular act. If you try to be a purist and do everything at once, you will likely be setting yourself up for some disappointment.

As more and more investors gravitate toward ESG investing, there will definitely be more research available to investors. From our perspective, it is a very exciting time to get started!
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