# THE RISE OF ESG?

**Written by Emily Pool DipPFA AIPW of Perceptive Financial Solutions**


## COVID-19 + MILLENNIAL EFFECT = BIG CHANGES

### We will consume and invest differently

ESG investing means using environmental, social and governance factors to assess investment opportunities. It may also be referred to as impact or socially responsible investing (SRI).

I believe that the Covid-19 pandemic has changed the way we think and behave for some time to come, and hopefully forever. The behavioural effects of this global health and economic crisis, in culmination with the imminent rise of the Millennials and Gen Zs, will inevitably have consequential changes to the way we consume and invest.

I examine below three key factors that will likely accelerate the momentum behind the ESG investment movement:

- **Consumerism** – we are not able to take for granted that those companies we like to consume from will survive this crisis. Many of us are being much more mindful about the way that we spend our money. It is true that by the time this is all over, most of us will have spent far too much on online shopping sites, like Amazon, but as the economy reopens many of us will seek to spend our money where it matters. Returning to our independent stores will be vital if we wish to retain our high street outlets. Many of us with money to spend will seek out the family run restaurants, pubs, cafes and garden centres which we treasure and rely on so heavily. Hopefully the cost of the furlough and other income support initiatives will have been worth it when we can all do our bit to rebuild our economy.
- **Investment** – we have seen that in general the Ethical, Social Governance (ESG) and Impact funds have held their own against the volatility of the stock market so much better than the mainstream funds – largely due to the absence of the exposure to the large oil companies. It will hopefully not take investors long to realise that ESG investing does not necessarily mean a compromise to return. The post-Covid-19 world will care more about the ethicality of a company, and will likely support better those companies who behaved in a socially responsible manner. I hold a light up to Timpsons, for example, who have paid their employees 100% of their wages (from their own coffers) whilst enduring the lockdown, and compare it to companies which simply let their staff go when the crisis hit. Ethical companies need to be well capitalised companies because they need to make decisions based on what is right for their employees, clients and stakeholders, and not just what is right for their balance sheet. Better capitalised companies, with principled and loyal employees and clients, will be less risky companies.

> *Millennials: A generation disrupted by societal discord and technological transformation.*
>
> *The Global Millenniual Survey 2019, Deloittes*

# MILLENNIALS & GEN Z


**Millennials & Gen Z** - Millennials is the label given to those born between 1981 and 1996, and Gen Z, between 1997 and 2012 – these two generations make up the majority of the global working population and they are building their economic power and finding their voice.

The economic dominance of the Baby Boomers has started to dwindle as they enter the last decades of their lives, and as they get older they start to spend less, or their spending habits change – it's now about more healthcare, less holidays and entertainment. They start to think about estate planning and passing down wealth to children and grandchildren. The Millennials and the generation following them care, much more than their grandparents' generation, about such things as climate change, environment, sustainability and ethical corporate behaviour.

A recent report by Deloittes describes the Millennials as a generation disrupted" by societal discord and technological transformation. "Millennials and Gen Zs, in general, will patronise and support companies that align with their values; many say they will not hesitate to lessen or end relationships when they disagree with companies' business practices, values, or political leanings." They are a societal force to be reckoned with, and effectively use social media and technology to spread their activism. The recent "Black Lives Matter" campaign being a great example of this. When this generation inherit the wealth of their parents and grandparents woe betide any company that does not have corporate governance high on its agenda.

**Product Innovation and Regulation** – Fund management companies have been innovating in this area for some time but care needs to be taken in distinguishing between the investment houses who are paying lip service ("greenwashing") to those that are committed to the sector and have long track record. Whilst ESG funds have been available for some time financial intermediaries have not been prolific in spreading the news. With an EU push, the regulation will require all Financial Advisers to ask clients about their requirements for ESG investing in their fact finding process. The UK will surely follow this lead despite Brexit.

The advisers are educating themselves and preparing their service proposition for the inevitable shift. As retail investors become more aware and educated in this area, the demand for ESG investment will increase, which will in turn trigger a response by corporates to behave more responsibly and sustainably, and this will create a greater demand for the shares of such companies, which will aid their growth – it is a self-perpetuating cycle.

There are several more reasons why now, more than ever, the investment horizon will start to shift, but in the interests of brevity I have focused only on these four areas.

If investors are empowered by the thought of their money having **positive impact** in this world - a world that needs it now more than ever, we can be hopeful and optimistic about finding our way out of this current crisis, and all the other future blips in the performance charts that will inevitably occur from time to time.

## IN SUMMARY:
## SUSTAINABLE = RESILIENT



**CONTACT EMILY ON 07786 854 048 OR EMILY@PERFINSOL.CO.UK**

PERCEPTIVE
financial solutions

**7 WOBURN STREET, AMPTHILL, MK45 2HP 01525 840534**