Module 11 Article

Investing With An ESG Lens

Five Actions On The Path To Success

As you look to incorporate ESG Values into your portfolio and investing decisions, the Rapunzl Team has developed a framework for ESG integration that is based on five key actions to look for in companies that are viable ESG investments.

1. Take Ownership

Look for companies that are allowing their shareholders to voice their opinions, and these ESG concerns are receiving decisive support from the C-suite and Board who are actively implementing ESG strategies

2. Company Education & Training

The most common practice for reducing barriers to ESG integration is providing training on ESG to sector portfolio managers and analysts. This makes ESG factors a part of the investment organization's DNA, so to speak.

3. Request Necessary Data

Corporations often complain that investors neither give them credit for sustainability efforts nor ask about their ESG performance; but instead focus on short-term financial performance. In turn, investors complain that companies don't report useful ESG data and never talk about it on investor calls. The only way to accomplish that is through engagement. Less directly, supporting industry efforts for increased standardization of ESG data and reporting requirements goes a long way toward better access to data.

4. Incorporate A Materiality Filter

Effective ESG integration does not require all the data at all times, but rather the necessary, materially important data. Information can be considered material if there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investors as having significantly altered the 'total mix' of information made available. More simply, material information is anything that impacts your investment decisions.

5. Align Time Horizons

This means adjusting performance metrics and incentives structure to reflect the long-term nature of ESG investing. Typically, ESG investors are comfortable with a longer time horizon, which is why retail investors can benefit in the long-term: most investment organizations are still evaluating and compensating managers on short-term performance regardless of investment horizons.