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The Future of ESG Investing

ESG investing is an outgrowth of SCI—socially conscious investing, a paradigm that involves depriving irresponsible companies of investor dollars. ESG, by contrast, is a strategy of identifying good companies to invest capital into, not just deprive bad companies of support.

Early conventional wisdom on ESG investing predicted underwhelming returns, which is what you would expect from an investing strategy not solely based on the pursuit of growth or the identification of undervalued stocks.

Nevertheless, ESG investments grew from $1 out of every $10 invested in 2012 to $1 out of every $4 invested. As the strategy caught on, ESG portfolios began to rival the returns of non-ESG portfolios.

In a way, this can be attributed to the popularity of the strategy itself, not any change in the fundamentals of the ESG-mandated companies. Remember, investors don't just want stocks because they are valuable—stocks also become valuable because investors want them. A company's stock value strongly correlates with the demand for the stock and analysts' confidence in the company.

The good news for investors is that ESG investing is expected to remain popular, growing to $1 out of every $2 dollars invested by 2025. This demand for ESG investments could contribute to an increase in the value of those in-demand investments.

Some analysts predict a leveling-off of ESG gains, since the value doesn't fully reflect the fundamentals of the company, but rather the hype and the fad.

We believe, however, that ESG compatibility is a reasonable indicator of responsible management, as well as a commitment to sustainability as a long-term growth strategy.

Moreover, investor dollars directed at ESG companies represent a vote of confidence from the market, encouraging other companies to follow suit and enabling ESG companies to expand. The future of ESG investing is bright.