U.S. Election Outcomes in Relationship to ESG Investing

Posted by Janelle Metzger
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Americans have lived through an unusually turbulent year - facing a compounding of crises - creating a more conscious, discerning and demanding public. With rising inequality, environmental threats and the long, 100-year road to gender parity, businesses need to fill the gaps that governments have left behind. We need to redefine what it means to be a profitable business - one that's not only returning profits, but also returning value to society.

Each election cycle poses a set of hot-button issues - antitrust, immigration, women's rights, etc. As of the past few years, environmental issues such as climate change have been finding its way to the top of the agenda, particularly as citizens become more conscious of the world around them. Per Morningstar, sustainability-focused index funds have doubled in assets since 2017. In fact, during the second quarter of this year, ESG fund flows continued at a record pace, according to Morningstar. In the United States, they totaled $10.4 billion, which nearly equaled Q1 flows.

At its core, ESG investing is tethered to the philosophy of 'sustainable investing.' It involves researching and factoring in environmental, social, and governance issues, in addition to the usual financials, when evaluating potential stocks. Companies that build sustainable businesses that improve their communities and the environment are in high demand.

A Trump Administration on ESG Investing

There are two proposals in particular from the Trump administration that seek to curtail ESG investing. The first, “Financial Factors in Selecting Plan Investments,” discourages employers who run 401(k) or pension plans from considering ESG factors for investments and instead requires them to only consider the financial return an investment offers. It also bars ESG investments from being the default choice in any public or private retirement plan.

And the second, “Fiduciary Duties Regarding Proxy Voting and Shareholder Rights,” alleges that proxy measures are too burdensome for public companies. We believe this is a fundamental misunderstanding of how proxy votes create accountability and transparency. Our upcoming whitepaper sheds light on the power of proxy votes. We believe investors can hold corporations accountable for their actions and ultimately transform the way businesses run and report on returns.

A Biden Administration on ESG Investing

A Biden administration on the other hand would deliver policy directly related to ESG factors, supporting demand for sustainable investments. In fact, Biden has introduced a $2 trillion plan to tackle climate change and pledged to achieve net-zero emissions through the “greening” of energy, infrastructure, transportation, agriculture and more. We can expect to see increased transparency and disclosures from businesses, further bolstering accountability, as well as an increased commitment to the U.N.’s Sustainable Development Goals (SDGs).

Regardless of the outcome of November 3rd, we all have a responsibility to care for the planet, the communities we live and work in, and we believe investors will continue to seek ESG investment strategies. It’s incumbent on all of us to be responsible citizens of our society and reflect that shared sense of responsibility through our investment choices.