

# ESG Investing | Top 3 Interesting Questions Millennials are Asking



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Next-generation investors are said to be more than twice as likely to be interested in environmental, social, and governance (ESG) and Impact within their investment portfolios than older generations. Millennials bring a broader perspective to their investments, one which extends beyond a narrow view that focuses solely on the shareholder. Millennials are increasingly aware of how important it is for companies to treat a broader spectrum of stakeholders in an equitable manner, including such stakeholders as a company's customers, suppliers, employees, regulators, its community, and the environment.

Analysis of ESG and Impact within an investment portfolio provides insight into potential risks and opportunities. Discussions of these very real risks and opportunities can help bridge the communication gap that often exists between the older generation that manages a trust, endowment, or family office and the up-and-coming next-gen.

As millennials inherit wealth and move into leadership positions, we help them achieve their investment goals and objectives. In addition to seeking attractive long-term returns to support their lifestyle, entrepreneurial pursuits, and philanthropic passions, millennials are interested in how companies in their portfolio interact with various stakeholders, and whether their approach is sustainable over the long term. ESG analysis can be a powerful tool for identifying more effective management teams; teams that are positioning their companies for success along sustainable dimensions, boosting positive impacts, and minimizing negative impacts across multiple stakeholders.

In addition to a preference for management teams that are striving to deliver exceptional results in a sustainable manner, investors are often interested in aligning their investment portfolios with their values. This phenomenon is not new and has increasingly become more sophisticated over time as portfolio analytics now allow investors to better "own what they own".

**In recent years we have seen a clear shift in our conversations with millennial clients, with many expressing a keen interest in ESG issues and Impact.**

Here are the top 3 questions millennials ask:

## 1. How can my investments make an impact?

As an investor, you impact the world by allocating capital to businesses that deliver goods and services. We recommend investment strategies that invest in a sustainable approach. The managers of these strategies not only identify companies that align with your values (for example climate change, human rights, global education, etc.) but also advocate for a positive impact on your behalf through shareholder engagement.

Your investments are comprised of exceptional businesses that were chosen for your portfolio, with an emphasis on areas you seek to support. In addition, the managers of your investment strategies will often push management teams of companies to change their approaches. They do this on your behalf by supporting shareholder resolutions at annual board meetings, and by voting shareholder proxies in a thoughtful manner.

*"I want to know more about the companies in my portfolio. Are they providing climate solutions, or do they generate large amounts of greenhouse gases? Do they have diverse representation on their Board of Directors? How are they treating their employees? Are they evaluating the risks presented by climate change? Are they a signatory to global human rights principles? Are they profiting from private prisons?"*

## 2. How can I align my investments with my personal values?

First, we recommend investment strategies that actively integrate analysis of each company's risks and opportunities across the spectrum of environmental, social, and governance (ESG) factors.

Second, we want to know what you care about. By knowing what you care about, we can help align your investment portfolio with your values. By reviewing your portfolio's exposure to specific issue areas that are of concern to you, we can help you shift your portfolio's exposure to companies that support areas of interest, and away from areas of concern. Examples of areas to move away from might include companies involved with tobacco, gambling, or alcohol or companies that have fossil fuel reserves.

*“Based on what I have observed, I don’t know how to do it – who should I call? I have all of these values but I don’t know how to approach it.”*

### **3. Can I align my investments with my values without sacrificing performance?**

Yes! You can still expect attractive returns and deliver a positive impact at the same time. A number of research studies have shown that ESG funds were able to keep pace or outperform standard non-ESG benchmark indexes over a wide variety of time periods, and often did so with modestly lower risk. Institutional asset managers increasingly recognize that ESG information can be material to performance and that it is relevant and meaningful. As result, over the past decade, many firms have integrated ESG research into their investment process. At Pathstone, we have extensive experience selecting investment managers. When we recommend an investment strategy, we are confident of the manager’s approach, and that they know what they are doing. We have become a [leader in this field](#), as evidenced by our proprietary assessments of investments in a portfolio to determine how they stack up across the ESG spectrum, and how they deliver access to Impact.

Regardless of how you view ESG investing, it has proven to be **another way to engage with other family members regarding your portfolio**. It changes the perspective from a more traditional, one-dimensional, focus on rate of return to a focus on future impact. When done properly, both are considered, and neither is diminished when blended with the other. **This shift in language provides an opportunity for families looking to engage younger generations**. It is an interesting entry point for younger members of the family who may not have been interested in a discussion limited to financial return and financial risk, but understand and are passionate about the environment, climate risk, and human rights.

The decision-making process in investing must involve research and analysis and a firm understanding of what the objectives are. This process initially may not seem all that attractive to those not drawn to it out of curiosity. However, if a sustainable approach with attractive returns is the shared goal, then the dynamic shifts. **A lightbulb of connection may go off in the head of that person who normally would not have been drawn toward investing**. If that engagement occurs, **a bridge can be created to bring those members of the family into the decision-making process**.

The creation of ESG, Impact, and sustainable investing principles has been a marvelous step forward in thinking of how to approach investing. It has provided opportunities for people to think differently about why it is important to invest. **This different approach may be a powerful way to engage younger members of your family, as you seek to share your insights into how to manage the family’s wealth**.

We here at Pathstone are happy to sit down, listen, and help you have those discussions, as we all build that bridge to the future together. Please [reach out](#) if you would like to learn more or continue the conversation.

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