

WHITE KNIGHT CONSULTING LLC



ESG, ETHICAL AND IMPACT INVESTING

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Other than COVID-19, one of the things that constantly gets attention in the financial press is investing in companies focused on **E**nvironmental, **S**ocial and **G**overnance (ESG) themes.

Why has ESG suddenly become such a priority for investors? Is this something new? How reliable is it to invest in this sector? Is it the same as impact investing?

Let's tackle these key questions: No, ESG is not new method of investing, just a rebranding of the traditional concept of ethical investing. We have noted a growing focus of Millennials and GenXers seeking to address social issues and environmental problems like climate change. At the same time, the capital markets have become more accessible via the likes of Schwab, You Invest, Fidelity and Robinhood. These two factors have increased the interest in ESG investing and the focus of major financial advisors.

How reliable is it to invest in ESG? Ethical investing was plagued by the difficulty in defining whether a company was acting ethically and how much of its profits were derived from ethical or socially responsible actions. Now, with ESG, we focus on the efforts that companies are making to limit their negative impact on society – a key difference between the two concepts.

For example, when we look at XVV (iShares ESG Screened S&P500) there are a number of companies in the healthcare and energy sectors that would have been excluded in an "ethical index." They might fall into the ESG sector, although they might not do their research for new drugs in an ethical and socially responsible manner. Instead, the focus is on how they are improving their methodology to discover new cures.

But what about impact investing? In a sense, this is the micro finance concept rebranded. I am a big believer in impact investing, so let's define it. We usually find philanthropists focused in poorer areas of the world where they give small loans that may have a major impact but with little focus on their return. For me, the Gates Foundation is a leader in making impact investments and providing dollars to improve the lives of people in underdeveloped nations while educating others around the world to join in this task.



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Maybe I'm a purist, but I prefer the thought process behind impact investing and find ESG to be a watered-down version of ethical investing. However, any effort to help push companies in the right direction is a good move. That said, I think that people should allocate a portion of their assets into impact investing, as this can have a bigger impact in the short and medium term. You may not make money via impact investing, but I can guarantee you will feel good about yourself, when you see the impact you are having in addressing the many challenges facing developing nations.

Samy Dwek is founder and CEO of White Knight Consulting LLC a Delray Beach firm that provides professional guidance and outsourced chief financial officer, chief operating officer services to high-net-worth individuals and families.

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