THE ESG BALANCING ACT

ESG investing—that is, considering often vaguely-defined environmental, social, and governance issues in investment analysis—has transformed from what it was originally billed as – a modest tool that allows individual investors to align their money with their values – to a sweeping global movement reshaping the decision-making of nearly every major company and sometimes running counter to traditional fiduciary and investment analysis.

The growth of ESG has put a spotlight on corporate policies around a plethora of items often loosely connected with profitability, including environmental impacts, employee relations, community relations and a company's leadership monitoring. The changing landscape of expectations investors have for corporations have led to a shift in how companies approach these internal policy issues.

Some examples of common ESG considerations include:

Environmental	Social	Governance
• Carbon emissions. • Air and water pollution. • Deforestation. • Green Energy initiatives. • Waste management. • Water usage.	• Employee gender and diversity. • Data security. • Customer satisfaction. • Company sexual harassment policy. • Human rights at home and abroad. • Labor practices.	• Diversity of board members. • Political contributions. • Executive pay. • Large-scale lawsuits. • Internal corruption. • Lobbying.

Source: **Nerd Wallet**

As ESG grows in influence, companies are shifting gears to consider these policies, at times to the detriment of the bottom line. Some analysts predict the ESG movement will damage economic growth, leading to higher costs, slower supply chains and inefficient allocation of capital.

The emphasis on these issues may also run counter to traditional fiduciary responsibilities. For example, 44 states (including Oklahoma) adopted the Uniform Law Commission's Prudent Investor Act, which expressly bans state investments based solely on social issues if the investment sacrifices the financial interests of the beneficiaries. This is especially true for retirement plans, like teachers pension systems.

Businesses will have to adjust where emphasis is placed in order to keep up with the changing investment landscape while maintaining profitability and even contending with potential legal liability. This balancing act will require deft corporate leadership, as well as continued engagement and monitoring of cultural and political trends.