NextGen investing: Where millennial meets mainstream
New Yorkers will no longer be able to leave grocery stores with single-use plastic bags due to a legislative bill that the state passed, set to go into effect by March 2020, and while not brought on by legislation, both childhood dream destination Disney and coffee behemoth Starbucks are part of a band of companies that pledged to eliminate the use of single-use plastic straws in favor of biodegradable alternatives.

As being environmentally conscious becomes a necessity for big business, the push for sustainability is only intensifying, tilting towards a new normal for how we interact with the world.

Change does not come without impetus. Past catastrophic events like the 2013 Dhaka garment factory collapse in Bangladesh, which forced major fashion retailers to overhaul supply chains, and the 2010 Deepwater Horizon Oil Spill, the largest event of its kind, have prompted both consumers and businesses to evaluate the environmental, social and governance (ESG) characteristics of the companies they interact with. But it is important to realize that some sectors of the population are more inclined than others to consider ESG standards.

A GENERATION THAT CARES

Millennials, or those born after 1982 and before 2004, are generally considered to be a cohort more focused on ESG. By 2020, they are set to make up over a third of the U.S. workforce, as baby boomers retire, while according to a study on how young investors could reshape the world, 86% of millennials are interested in sustainable investing. As their proportion of the workforce and impact on society grows, there is an argument to state they have been influencing other generations to become ethically minded, place greater importance on corporate responsibility and develop a healthy respect for the environment.

MILLENNIALS BECAME THE LARGEST GENERATION IN THE LABOR FORCE IN 2016

U.S. labor force, in millions

Note: Labor force includes those ages 16 and older who are working or looking for work. Annual averages shown. Source: Pew Research Center analysis of monthly 1994-2017 Current Population Survey

Paul Loudon, investment manager at Walter Scott, says: “We believe millennials are playing a role in terms of rising interest in ESG investment but also feel it is an area of investment that is of growing interest for all age groups. It is a gradual long-term secular trend,” Loudon says.

Another member of the Walter Scott research team, Lindsay Scott, adds: “There has been increased interest in the environmental aspects of investing, not just among millennials but among all investors, especially since the Paris climate agreement of 2015. We believe this is filtering through in terms of how investors and investment managers analyze companies.”

Regardless of the inevitability of ESG momentum, sustainability commitment by many millennials, coupled with their increased spending power as they come into full bloom, is likely to push ESG investing even further into the spotlight.

**MAKING AN IMPACT?**

While positive returns are crucial, millennials are investing this way for a different reason: 75% believe their investments can influence climate change and 84% that their investments have the power to help lift people out of poverty.

“A growing number of investors want to see the impact companies are having, not just the numbers,” says Scott.

She cites a well-known example related to the 2013 Rana Plaza disaster on the outskirts of Bangladesh, in which 1,100 people were killed when a complex of clothes factories and shops collapsed. “Many companies had to review and update the list of clothing suppliers they used to curtail negative press that could potentially polarize consumers.

“Since then we had seen many companies proactively publish policies about suppliers and whether their clothes are made from ethically-sourced materials,” Scott says.

While the notion that these companies are making an impact through corporate social responsibility (CSR) initiatives seems to be black and white, measuring the level of impact is not. In fact, comparing two companies financially is much easier than comparing them from an ESG perspective.

“The way that companies present ESG data is often very different,” Loudon says. “It can cause confusion in terms of trying to identify what the most material aspects are for each business. Governance tends to be easier to focus on, but good environmental disclosure is harder to come by, making it more difficult to assess long-term environmental risk.”

While cohesion in data disclosure is still developing, so are expectations of what all investors want from an ESG strategy. At the onset of ESG investing, most investment products focused on negative screening, which involves excluding so-called ‘sin stocks’ or companies deemed unethical and ‘environmentally unfriendly’ from portfolios. These companies typically include oil companies, arms manufacturers or tobacco firms.

More recently, investment managers have gravitated away from this and towards positive screening, according to Scott. Positive screening is when portfolio managers select companies that set positive examples with environmentally conscious product development and business practices that are socially responsible.

Negative screening gave early ESG strategies a bad reputation due to some evidence that it led to diminished returns but positive screening has the ability to generate returns that keep up with, or even exceed, the benchmark. The realization that investing based on values does not have to come at the cost of subdued returns has the ability to push ESG from being a theme of investing to becoming the standard for investing.

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5 Newsweek: World Environment Day: How the Rana Plaza disaster changed fashion forever, 5 June 2018
“Successful investing relies on an ability to discern all factors that might influence a company’s valuation, at both the time of purchase and in the future... In that sense, one could hope that, longer term, sustainability will be integrated into all investments products for all people,” Scott says.

Millenials, with their collective interest in sustainable investing, will likely influence the growing acceptability of ESG as a staple across the industry, particularly since they are set to receive more than $30 trillion of inheritable wealth. Members of Generation Z, or iGen, are already replacing millennials as the youngest members of the workforce but they tend to have a lot in common with the preceding generation when it comes to environmental issues and having a positive impact on the world. All of this points to a hopeful outlook for investment approaches incorporating ESG concerns, Scott concludes.

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