



ESG INVESTING

A Framework for Environmental, Social, and Governance Considerations in Portfolio Design

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It is often argued that the world is changing and that the impact of Environmental, Social, and Governance (ESG) issues could pose a significant risk or potential opportunity for pension assets. While this argument may well have merit, it rarely leads to actionable steps or clarity of direction. In some sense it is a call to arms against an unknown enemy. The inherent breadth and ambiguity of issues has resulted in the integration of ESG considerations into portfolio design remaining largely a philosophical push without clarity on the direct and indirect impacts on shareholder value.

This paper proposes a simple framework to consider the impacts of ESG issues with respect to their role in investment decisions. This framework allows ESG considerations to be disentangled and provides a clearer path for further investigation of the impact of good/bad ESG policies on shareholder value and how these considerations may be appropriately included in the investment decisions of both investors and fiduciaries.

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