ESG Investing

How Portfolios Can Impact the Real Economy

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Many investors seek impact through their financial portfolios. To help clarify how investors can affect the direction of corporate decision making, we analyze the two channels of influence:

1) direct control, typically through exercise of voting rights, and
2) changing the cost of capital through portfolio positioning.

There are many ways that stakeholders are engaging with corporates but we argue that there are no other first-order mechanisms for a financial portfolio to have "impact" beyond the two mentioned above. As a real-world example, we apply these insights to the portfolio "net zero" initiative, showing how the typical approach to net zero gradually shifts the focus from the direct exercise of control to the impact on financing costs.

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