

Environmental, Social, and Governance (ESG) Investment

Environmental, social and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights. ESG criteria are an increasingly popular way for investors to evaluate companies in which they might want to invest. ESG criteria can also help investors avoid companies that might pose a greater financial risk due to their environmental or other practices.

Environmental criteria may include a company's energy use, waste, pollution, natural resource conservation, and treatment of animals. The criteria can also be used in evaluating any environmental risks a company might face and how the company is managing those risks. For example, are there issues related to its ownership of contaminated land, its disposal of hazardous waste, its management of toxic emissions, or its compliance with government environmental regulations?

Social criteria look at the company's business relationships. Does it work with suppliers that hold the same values as it claims to hold? Does the company donate a percentage of its profits to the local community or encourage employees to perform volunteer work there? Do the company's working conditions show a high regard for its employees' health and safety? Are other stakeholders' interests taken into account?

With regard to **governance**, investors may want to know that a company uses accurate and transparent accounting methods, and that stockholders are given an opportunity to vote on important issues. They may also want assurances that companies avoid conflicts of interest in their choice of board members, don't use political contributions to obtain unduly favorable treatment and, of course, don't engage in illegal practices.