

ESG Investing

Accounting & Finance

What ESG factors are, and the debate around them.

The case for

- Governance failures destroy value
- Climate risk is financial risk
- Regulation is tightening in many markets
- Talent and customers respond to it
- Long-horizon investors face these risks

The critiques

- Ratings disagree sharply between providers
- Greenwashing is hard to detect
- Screening narrows the investable universe
- Conflating ethics with returns
- Measurement standards still immature

THE DIFFERENCE THAT MATTERS

Governance has the strongest evidence linking it to returns.
Environmental and social factors are harder to measure.

Educational reference. ESG ratings from different providers correlate far less than credit ratings do — around 0.5.