

Chapter 2: Building an investment portfolio

Video 7

ESG and sustainable investing

Environmental factors

Environmental factors are related to a company's impact on the natural environment and the sustainable use of natural resources. They include considerations like carbon emissions, energy efficiency, waste management and natural resource conservation.

ESG investing

"ESG investing" is a term that tends to be used interchangeably with "responsible investing" or "sustainable investing." It's an approach to investing that incorporates environmental, social and governance factors in the investment process to complement traditional financial analysis.

ESG ratings

ESG ratings are a way to assess a company's overall sustainability performance according to ESG factors. ESG ratings give further insight into risks a company can face that may not be visible on a company's financial statements.

Governance factors

Governance factors are related to how a firm is managed and overseen. They are found in an assessment of the structure and oversight of a company. Key aspects include board composition, executive compensation, shareholder rights and the transparency of financial reporting.

Social factors

Social factors are related to people, including employees, customers, suppliers and society at large. They include evaluating a company's treatment of its employees, engagement with communities, diversity and inclusion practices, human rights and product safety.