Impact and ESG Investing Distinctions

The investment industry is full of complex and specific arenas. Different asset classes and portfolio management strategies have varied risks and projected returns. Performance can be measured in real time, each quarter, or over decades. Investment choices are subject to scrutiny and detailed analysis. They may also be selected for their environmental, social, and governance (ESG) criteria. ESG investing is a form of sustainable investing that considers factors to judge an investment's risk and return potential in relation to these non-financial criteria. Unfortunately, recent attention on ESG has become political fodder with a variety of meaningless terminology, including "woke capitalism," which is being thrown around seemingly to scare and obfuscate.

A Closer Look at Impact and ESG Investing

For those who may be confused and perhaps hearing some of these terms for the first time, we have included some helpful distinctions. Impact and ESG investing take environmental, social, and governance factors into consideration in addition to financial metrics. However, there are subtle differences shared below.

	Impact Investing	ESG Investing
Intentionality	The specific goal of proactively benefiting society alongside financial returns.	The inclusion of risk factors that were previously deemed non-financial. Nowadays, the term is almost redundant as most financial analysts look at issues of externalities, governance, reputational risk, and the like in addition to conventional modern portfolio tools like earnings multiples and 10Ks.
Voice	Impact investors tend to communicate within their stakeholder community, highlighting how the investments have positive societal benefits.	Many ESG investors publicly convey their strategies and make statements about their avoidances and proxy voting.
Transparency	An impact investor aims to measure and report on an investment's affirmative positive societal outcomes and its alignment with desired missions or values.	An ESG analyst will seek metrics such as carbon emissions, commitment to diversity, equity, and inclusion (DEI), and board independence while evaluating financial risks associated with a potential investment. Issuers who may prefer to obscure these data points are finding themselves increasingly isolated.
Screening	Impact investing employs positive screens with an affirmative, bottom-up style that typically includes a defined focus on values and objectives.	ESG screens may be used to rank or exclude companies with poor ESG records or to seek best-in-class performers.

CCM: An Impact and ESG Investing Practitioner

We have been practitioners of impact and ESG investing for over two decades. We go to great lengths to offer our clients choices to align with their responsible investing beliefs. We provide a menu of impact themes that clients (meeting minimum requirements) may select in their impact customization (environmental "E" and social "S") in addition to options for place-based impact investing and investing in alignment with different types of initiatives, like minority advancement and COVID-19 relief. We believe governance "G" can take place in both impact and ESG investing and have seen our form of engagement have an impact on behavior in fixed income by enhancing a bond and/or its issuer's expected ESG outcomes. Clients have diverse values and our role is to give them the freedom to choose if and when they choose to align their investments with their principles.

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