The events in Charlottesville lend fresh urgency to the ESG debate and demand a new focus on social impact

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Like the new kid in school who hopes not to be bullied on the playground, environmental, social and governance (ESG) investing has done everything it can to fit in with the crowd.

It arrived on the scene in full hippy garb as socially responsible investing (SRI), and after decades ostracized at the end of the cafeteria table, we changed its clothes, cut its hair, changed the playlist on its iPod and took it mainstream.

In the process of recasting it, though, we have lost some of its essential and distinctive qualities. Why is it still unacceptable in the financial community to make explicitly socially responsible investments? Looking at ESG-oriented strategies as a whole, moving toward the mainstream has resulted in a sublimation of social purpose. Many ESG practitioners have allowed the skeptics to frame the debate rather than taking them on.

In the quest for acceptance, overcoming the myths surrounding ESG began to trump the ethical reasons behind these investment strategies. While the asset managers, wealth managers and gatekeepers were trying to contextualize sustainable investing in historical market terms, they lost touch with the motivations of many of the investors who are moving toward it.

This summer has convinced me that it's time to rededicate ourselves to socially responsible investing.

THE CLIENT PERSPECTIVE

I have had a number of conversations in the course of my consulting business in which clients have tried to parse the market. They often break down the universe into three buckets – socially responsible investing, ESG investing, and impact investing. I do not necessarily agree with this classification scheme, but it is important to see the world through the client's eyes and this seems to be a fairly common view. Rather than viewing options on a continuum of impact materiality, they see it as a barbell of misguided priorities. At one end is SRI with all of its baggage, and at the other end is impact, burdened with the perception that it requires investors to give up on financial returns in pursuit of social and environmental change.

SRI is often discussed pejoratively in these conversations. All of the old myths and even some new ones seem to resurface. It is for investors who accept less than market returns. The investment processes are only exclusionary and therefore inherently crippled. The portfolio managers are focused on mission over market. The punches come so hard and fast that the acronym SRI has even been repurposed. The Forum for Sustainable and Responsible Investment now unpacks SRI as 'sustainable, responsible and impact' investing.

MISSING THE POINT

More inclusive and nuanced to be sure, but for those not already inside our jargon tent, nuance may not be what is needed. ESG, which seems to be more or less conflated with 'sustainability', is being wrongly characterized as exclusively public market-oriented investments in which the emphasis is on inclusion, risk optimization and alpha generation. Any mission- or purpose-related aspects, particularly social, are hidden away. The sustainable investing industry has had a hand in building this perception too, as part of its efforts to demythologize SRI and help it gain mainstream acceptance.

Investment fundamentals first, ESG factors in support of those fundamentals second and social activism a distant third, if at all. Compared with the rising tide of demand, there are too few boutiques that are staunchly committed – to the last molecule of their DNA – to a sense of social purpose that is enabled and ennobled by the capital markets.

This summer, culminating in the outpouring of bigotry and misogyny in Charlottesville, Virginia, has thrown this into stark relief. There are societal issues that transcend profit and loss, and these are issues that matter to the same people who make consumption and investment decisions.

The part of Wall Street that should be paying the most attention is avoiding the conversation and trying to hang with the cool kids.

But reassuringly – and in a few cases, astonishingly – corporate America has stepped up, putting the focus back on what is socially responsible rather than what will drive the next 10-Q.

While the recent statements did not immediately increase shareholder value, they definitely reflected stakeholder priorities.

It's time for gatekeepers, as proxies for clients, to take a deeper and more critical look at social responsibility in the new ESG economy. ■