FUNDAMENTALLY SPEAKING

A simple explanation of the finance terms we all hear about but don't really understand

The big three of ESG come to the fore with investors

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The term ESG — short for environmental, social and governance — is certainly hot now.

To give you an idea of how hot, look at PIMCO's recently released analysis of earnings call transcripts of 10,000 global companies since 2005. ESG was mentioned on about one per cent of earnings calls up to 2018, rising to 5 per cent by 2019.

It was mentioned on 19 per cent of calls in May this year.

This jump is probably not surprising given the growing awareness globally of environmental and social factors.

Investing with ESG prioritises optimal environmental, social and governance outcomes. But everyone has a different view of what an "optimal" outcome is.

Despite there being many different views, this hasn't stopped an influx of ESG investment funds hitting the market.

On the environmental front there's little doubt a new younger generation of investors has contributed to a growing environmental awareness.

Issues such as climate change, resource depletion and water pollution are at the forefront of investors' minds.

With social, investors are increasingly paying attention to supply chains and therefore have a strong emphasis on working conditions, equal opportunities, human rights and child labour and slavery.

Governance doesn't get as much attention but is still closely examined. Business ethics, executive pay, board diversity and structure are scrutinised.

A good recent example was the pressure some ASX-listed companies came under to hand back the JobKeeper payments they received despite making large profits.

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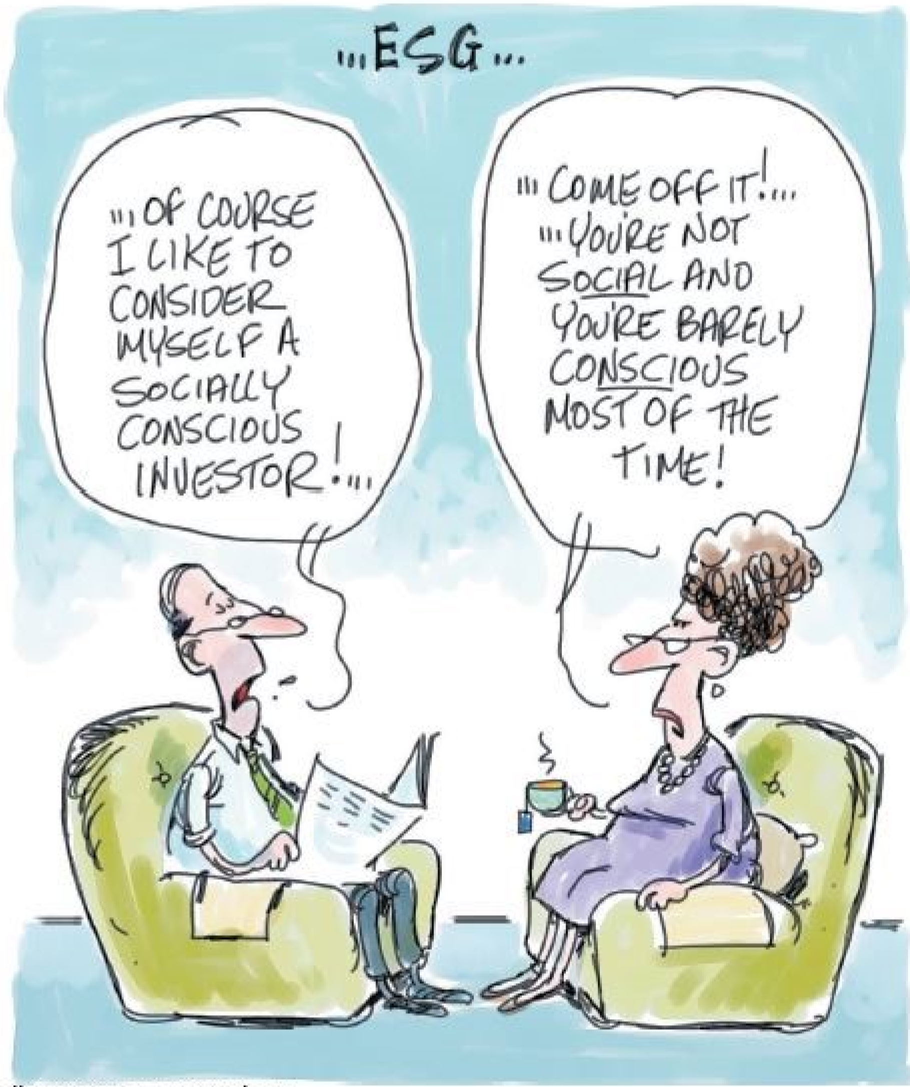

Illustration: Don Lindsay