OppenheimerFunds®

SUSTAINABLE INVESTING

Why We Think ESG Is a Bedrock Investment Issue

We believe good environmental, social, and governance practices can be additive to performance.

By George R. Evans | July 13, 2018

The investment interest around environmental, social, and governance (ESG) criteria is growing among a wide variety of investors, but the concept isn't new. ESG factors have been and are important to any holistic understanding of a business. In some ways, they are the most foundational or bedrock investment issues, and we have found in our own strategies that good ESG practices at companies can be additive to investment performance. The reason is quite straightforward: ESG characteristics matter in a very real economic sense.

ESG miscues can derail a company's ability to create economic value for its shareholders on an ongoing basis. Increasingly, companies are realizing that it is in their business interests to perform well against ESG criteria. Although they articulate separately, environmental, social and governance standards are almost never separate and distinct. They can interact with one another, often positively, sometimes negatively, and have important implications for the sustainability and durability of a company's business economics.

ESG Supports Long-Term Value Creation

For nearly 50 years, the Global Equity Team at OppenheimerFunds has had a consistent aspiration. We seek to be long-term investors in above-average businesses that have significant competitive advantages, and that are beneficiaries of structural shifts in economic growth, technology, and demographics. Capturing the compounded effects of these structural shifts requires longer-than-average holding periods, which is generally our approach. Thus, it is clear that any business that is capable of long-term value creation for its shareholders must excel at ESG.

In our experience, long-term value creation is not possible for companies entangled with ESG controversies. History is riddled with examples of companies that performed poorly on one or more of these criteria—and shareowners ultimately paid a heavy price. Perhaps the most recent headline-grabbing incident involving an environmental disaster was the Deepwater Horizon explosion and oil spill in the Gulf of Mexico in 2010. The project sponsor, British Petroleum, saw its share price quickly decline by 50%. Moreover, the total cost to BP (i.e., its shareowners), taking into account fines and cleanup costs, exceeded $50 billion. So ESG is a very real topic with very real economic consequences if things go wrong. This is why we have, for nearly 50 years, treated these issues with the significance they warrant, and we did so long before the letters "ESG" appeared in print.

Informed Judgment Is Required

ESG, like everything else we confront as investors, demands informed judgment. The durability and trajectory of any given set of business economics can be enhanced or hindered by corporate performance on these criteria, and that is why we spend considerable time on ESG-related investment considerations. They have always been relevant, and they will continue to be so.

To learn more about how we think about environmental, social, and governance factors and integrate them into our research process, read our white paper, *A Holistic Approach to Evaluating ESG.*

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