Thrive in 2021

Environmental, social and governance (ESG) investing will be a popular topic in 2021, from both agricultural business and personal perspectives. Also known as sustainable investing, ESG applies non-financial factors to a company's overall analysis to identify underlying risks or opportunities that could impact its growth.

According to the Global Sustainable Investment Alliance, ESG accounts for over $30 trillion globally, of which Canada represents approximately $2.13 trillion. It is a powerful trend and gaining momentum. A Financial Times survey found that 96 per cent of institutional U.S. investors expect to increase their focus on ESG as an investment criterion in the post-Covid-19 recovery.

From an agricultural business perspective, ESG has serious implications. For example, the Farm Animal Investment Risk and Return Initiative (FAIRR) found that animal factory farming is exposed to at least 28 ESG issues that could significantly damage financial value over the short or long term, with implications through the entire food chain, including large agribusiness, food retailers, and restaurants.

ESG's environmental components can include disease outbreaks, biodiversity loss, climate change, pollution and soil degradation. For instance, FAIRR predicts that a warming climate could make factory farming less financially viable and points to cattle 'heat stress days,' which are expected to increase by 21 per cent by 2045.
Social issues include factors such as the use of antibiotics, fair trade, working conditions, land rights, women farmers and food waste. Examining the latter, Credit Suisse found that food waste in the EU accounts for 88 billion tonnes per year and costs 143 billion euros (C$222 billion). From an investment perspective, companies providing better ag tech stand to benefit from a more sustainable approach to farming.

The impact of governance issues may be the easiest to quantify because of the relationship with policy changes and availability of subsidies. To illustrate, the EU is in the process of reforming its Common Agricultural Policy (CAP). According to Deutsche Welle, CAP offers approximately 54 billion euro (C$84 billion) in farming subsidies and a portion of the direct payments are only released if farms meet certain environmental requirements. Proposals are in place to have 20 per cent of the payments earmarked for specific green initiatives, while environmental groups are pushing for a significantly higher percentage. Therefore it is important for companies relying on subsidies to be sure they address governance issues.

ESG is also making an impact from a personal perspective, as investors are increasingly turning to it to improve overall returns. A report by Bank of America Merrill Lynch found that companies with better ESG records produced higher three-year returns than their peers, and were less likely to experience large price declines or bankruptcy.

Incorporating ESG into portfolios is simpler than it sounds. For hands-off investors, many choices are available through exchange-traded funds (ETFs) or mutual funds. ESG-focused funds typically conduct extensive ESG analysis, work directly with companies to improve sustainability practices and assume shareholder activism roles focused on ESG.

Investors who purchase stocks outright will have to do a bit more homework, but an increasing number of companies readily provide clear and transparent reporting about their ESG compliance. Deutsche Bank states that 90 per cent of companies in the S&P 500 provide sustainability reports to investors.

No matter whether the perspective is business or personal, ESG will be a driving theme for many years. Those wishing to thrive in 2021 should consider the impact of ESG and incorporate it into both their business and personal investment planning.

Kim Inglis is a Financial Advisor & Associate Portfolio Manager, Private Client Group at Raymond James Ltd., a member of the Canadian Investor Protection Fund. She is a CAFA-certified farm advisor. The views in this column are solely those of the author. *Learn more at* ***www.inglisprivateinvestmentcounsel.com***

BY KIM INGLIS

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