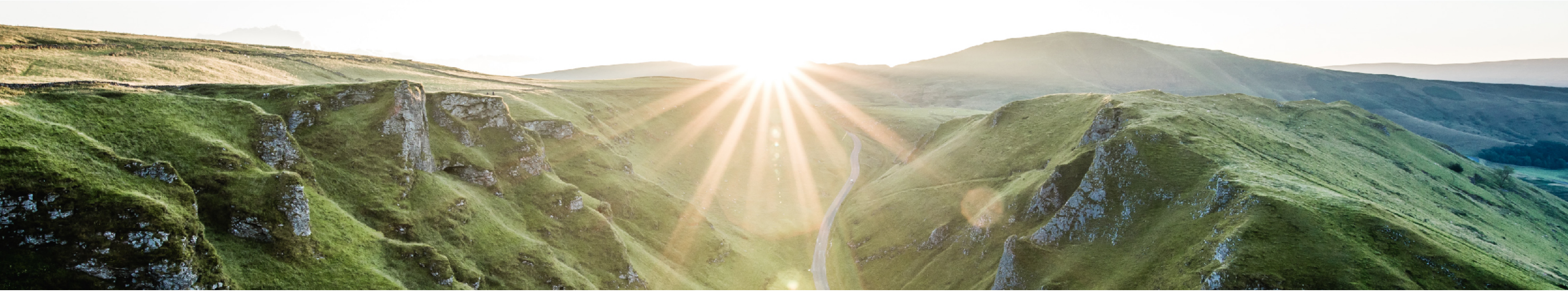
AUGUST 2022

THE IMPACTS OF ESG INVESTING



Personal values are playing a more prominent role when it comes to making important life choices and financial decisions, according to Charles Schwab's 2022 Modern Wealth Survey.

Nearly three-quarters of survey respondents said their personal values guide how they make life decisions more than they did two years ago, particularly among millennials (roughly defined as those between the ages of 28-40) and Generation Z (18-27).[1] The results provide important clues about how changing consumer preferences could shape the future of financial markets.

INVESTING FOR A MORE SUSTAINABLE FUTURE

The signals are perhaps most clear in the environmental, social, and governance (ESG) investing space, which has seen explosive growth among investors concerned about climate change and hot-button social issues like economic inequality, work reform, and corporate behavior.

By the end of Q4 2021, retail investors had allocated more than $142 billion into global sustainable funds, which now account for more than $2.74 trillion worldwide.[2] In the U.S., sustainable funds grew by more than $4 billion per quarter in 2019 (this figure had not exceeded $2 billion in any previous year).[3] Large institutional investors, like BlackRock, have also publicly committed to expanding their sustainable offerings.[4]

Similarly, Westmount's ESG portfolio offers clients access to a mix of sustainability-focused stocks, bonds, and thematic alternatives focusing on clean water, economic development, and renewable energy.

However, ESG fund flows alone don't tell the whole story. Consumer buying behavior, particularly among millennials and Gen Z, is also changing. According to Deloitte's 2022 Gen Z and Millennial Survey, 37% of respondents said they prefer brands that have ethical practices or values, a seven-point increase from 2020.[5] In a separate study, 34% of respondents reported that they had stopped purchasing certain brands or products due to ethical or sustainability-related concerns.[6]

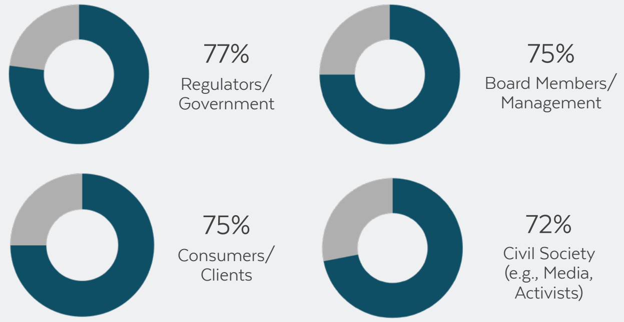
"People want to see real change, not just 'feel-good- marketing gimmicks," says Westmount's Terrence Demorest, Chief Investment Officer for Public Markets and ESG. "From how they invest to the products they buy, consumers have made it clear that ethics, sustainability, and transparency are more important than ever."

AS CONSUMER PREFERENCES CHANGE, COMPANIES STRUGGLE TO ADAPT

Companies, too, are taking notice, though to date many have struggled to take meaningful action. Deloitte's 2022 CxO Sustainability Report found that company leaders reported receiving a "moderate-to-large degree of pressure" from stakeholders (including regulators, board members, employees, and shareholders) to take direct action on climate change. Addressing workplace reform, closing the gender wage gap, and reining in corporate malfeasance have also been cited as important areas of focus.[7]

Stakeholders Pressure Companies to Act

To what extend does your company feel pressure to act on climate change from your stakeholders?



**Deloitte, 2022 CxO Sustainability Report*Deloitte, 2022 CxO Sustainability Report*

Still, a significant gap exists between companies' sustainable ambitions and actual impact. The Deloitte CxO study also found that, on average, companies have been hesitant to adopt harder-to-implement actions like imposing sustainability criteria for suppliers and business partners, developing new eco-friendly products and services, or incorporating climate considerations into their lobbying or political activities, even as they recognize such actions could prove beneficial.[8]

USING BUSINESS AS A FORCE FOR GOOD

To help bridge the gap, influential public-sector entities like B Labs have emerged as important links between sustainability-minded consumers and similarly aligned companies across nearly every sector.

Formed in 2006, B Labs administers the coveted [B Corporation certification]() program, which recognizes companies that demonstrate strong, verifiable performance across a wide range of criteria.

With a combined revenue of roughly $67 billion, Certified B Corporations ("B Corps" for short) have a large global footprint. There are more than 5,000 B Corps operating in over 70 countries across 150 industries and disciplines.[9] Westmount, which [became certified earlier this year,]() is one of only a handful of California-based registered investment advisory firms to attain this distinction.

Candidates for B Corp certification must undergo a rigorous evaluation process that examines their overall impact on employees, customers/clients, suppliers, communities, and the environment. Once certified, they must maintain a minimum assessment score every three years, in addition to satisfying other operational and legal requirements.

At Westmount, the decision to apply for B Corp status was the result of an employee-driven initiative seeking to codify values that the firm has been practicing since its founding more than 30 years ago. Westmount performed strongest in the areas of Customer Stewardship and Employees in its initial evaluation, which aligns with its vision of being the "go-to" investment advisory firm for both clients and industry talent.

"Our firm has been a fierce advocate for client interests since Day 1," says Westmount Senior Advisor Denis Massey, who also spearheaded the firm's certification efforts. "We view our newly attained B Corp status as a formal extension of that promise, particularly as the sustainability movement continues to gain momentum among investors and the general public."

To learn more about Westmount's B Corporation certification, [read the press release here.]() You can also email [info@westmount.com](), call us at 310-556-2502, or contact your Westmount advisor directly.

DRIVING POSITIVE CHANGE THROUGH YOUR INVESTMENTS

As we've noted above, demand for ESG products is at an all-time high. A report from Broadridge Financial Solutions predicts that ESG assets will exceed $30 trillion by 2030.[10] At Westmount, ESG assets under management have grown by 146% since 2020.

One reason ESG is so appealing, fund managers say, is that it allows investors to balance traditional investment objectives with more altruistic ends. But how is that impact being measured? And to what extent are ESG investments responsible for driving those results?

Adding another layer of complexity to the mix is the prevalence of "greenwashing" by some unscrupulous firms and the companies that comprise their funds. Companies are said to be engaged in greenwashing when they overamplify their sustainability efforts and mislead clients into thinking their investments are more environmentally friendly and socially impactful than they really are.

"It's easy to quantify an investment's returns over time, but gauging actual societal impact can be more difficult," says Demorest. "This is an important, albeit relatively new area within the ESG space. Beyond performance, investors—including our clients—want to know that their investments are making a difference."

The good news is that increased regulation, a renewed focus on accountability and reporting, and improved technology are making it harder for companies to hide behind ambiguous reporting standards or marketing gimmicks. Earlier this year, the SEC announced plans to ramp up guidance on corporate disclosures to "promote consistent, comparable, and reliable information for investors."[11] And the European Commission recently finalized its Sustainable Finance Taxonomy, which will guide which corporate activities can be labeled as "environmentally sustainable."[12]

Westmount's Investment Team, too, has taken steps to provide better insights for its sustainability-minded clients. Earlier this year, Westmount incorporated a new reporting tool called [YourStake](#) into its ESG platform. Founded in 2018, YourStake compiles data from annual company reports, academic literature, and over 100 approved sources into a single report to help investors better understand the ESG impact of their investments.

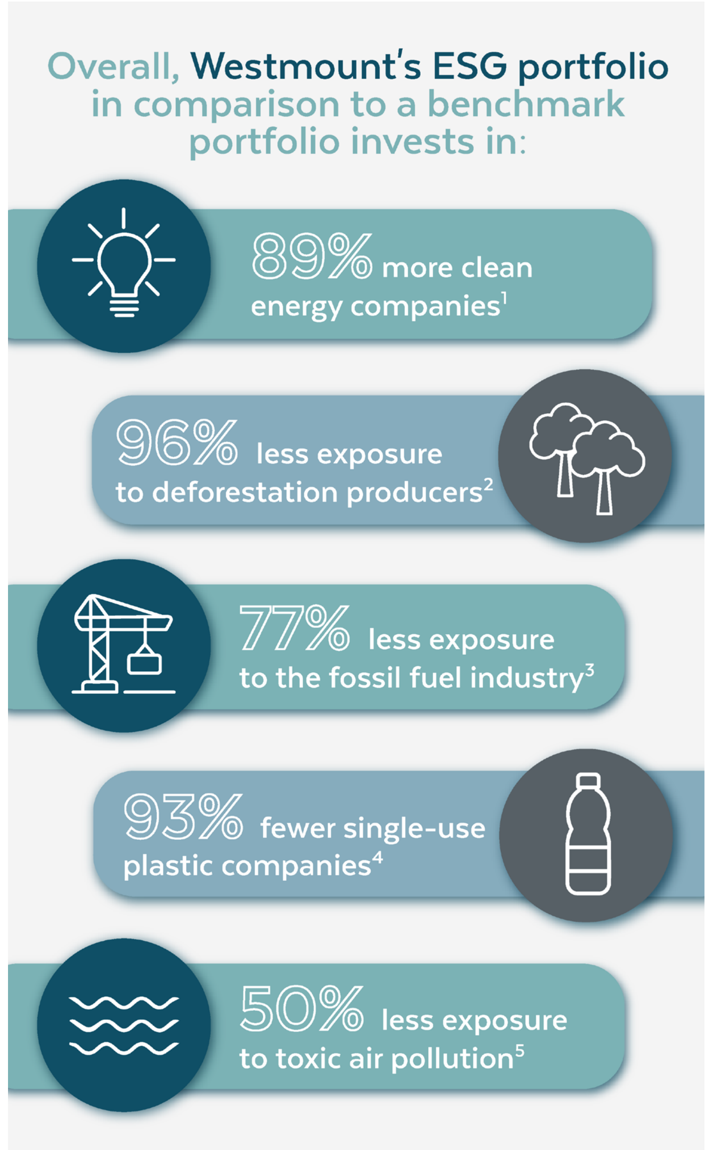
For example, the YourStake analysis compared the companies held in Westmount's ESG portfolio (through their respective funds) against benchmark data from the total world equity market and found that companies in Westmount's portfolio resulted in 1,513 more clean energy-powered homes compared to benchmark data.[13]

"The main issue with traditional ESG scores is that they don't mean anything to the average investor," YourStake co-founder Gabe Rissman said in a statement. "They're inconsistent, opaque, and confusing. Our goal in launching the ESG Metaphor Metrics is to equip advisors with trusted data and terminology that their clients actually know and care about."[14]

YourStake also provides in-depth reporting about shareholder engagement activities—instances where Westmount's fund managers used their influence as shareholders in a given company to influence a change in certain behaviors or policies that align more closely with ESG values. Through this lens, the YourStake analysis identified approximately 300 examples of companies making a tangible commitment to change as a result of a shareholder engagement campaign.

"We're excited to utilize YourStake's expertise in social impact data and analytics to further deepen our understanding of the funds we invest in," says Demorest. "In doing so, we hope to convey to our clients that their investments are in fact driving positive change."

To learn more about Westmount's ESG portfolio or YourStake, contact your advisor, email info@westmount.com, or call our main office at 310-556-2502.



[1]companies with the highest clean economy revenues, and pure-play clean energy companies
[2]agriculture commodity producers and traders linked to deforestation
[3]companies operating in the fossil fuel industry and utilities powered by fossil fuels
[4]companies that produce plastic
[5]harm done by toxic air pollution released in the U.S. by the company, using EPA data

Sources
[1]https://content.schwab.com/web/retail/public/about-schwab/schwab_modern_wealth_survey_2022_findings.pdf• [2]https://www.morningstar.com/lp/guide-to-impact-assessment (PDF) • [3]https://www2.deloitte.com/us/en/insights/topics/strategy/sustainable-transformation-in-business.html • [4]https://www.ft.com/content/d7e83ba0-c90b-46c0-9233-ad06187606c1 • [5]https://www2.deloitte.com/content/dam/Deloitte/global/Documents/deloitte-2022-genz-millennial-survey.pdf • [6]https://www2.deloitte.com/us/en/insights/topics/strategy/sustainable-transformation-in-business.html • [7]https://www2.deloitte.com/content/dam/Deloitte/at/Documents/sustainability/at-sustainability-report-2022.pdf • [8]https://www2.deloitte.com/content/dam/Deloitte/at/Documents/sustainability/at-sustainability-report-2022.pdf • [9]https://bcorporation.net • [10]https://www.broadridge.com/white-paper/asset-management/esg-and-sustainable-investment-outlook • [11]https://www.sec.gov/news/press-release/2022-92 •[12]https://www.unpri.org/policy/eu-policy/eu-taxonomy • [13]Compared to the total U.S. stock market, based on the amount of equivalent clean energy (mwh) produced by a company based on revenue supporting a clean energy economy • [14]https://www.globenewswire.com/en/news-release/2021/09/02/2290982/0/en/YourStake-Launches-New-Suite-of-ESG-Metaphor-Metrics-Expands-to-Serve-International-Investors-with-Global-Impact-Data.html

Disclosures