# Is ESG investing a con?

Paradigm Norton *for life*

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# Myths and misconceptions of ESG

Does ESG (or responsible/ethical/sustainable) investing make a difference, or is it just greenwashing? Are your investments doing good, but at the cost of performing well? Or are they simply not doing any good at all? Can responsible investment strategies really lead to positive change in the real world?

There's plenty of confusing and conflicting messaging circulating about responsible and sustainable investing, and consumers are often understandably unsure about what to do for the best.

But at the same time, we know that an increasing number of people want to make decisions that benefit the planet. 76% of UK adults have made lifestyle changes to help tackle climate change. People are reviewing their shopping habits and travel, and paying closer attention to the potential impact (both good and bad) of their pensions or investments. (**Office for National Statistics, 2024**[1])

This has unsurprisingly led to a growing demand for sustainable investment options, and the Environmental, Social & Governance (ESG) investing market generated a **revenue of USD $1,641.7 million in 2024, with a projected revenue of US $5,084.4 million by 2030**[2].

Investing has the potential to play a vital role in addressing global issues like climate change. But how do you know that you are truly investing your money responsibly? Or is ESG and sustainable investing all just an elaborate hoax?

We dig deeper to find out, and… spoiler alert… while some cynicism is justified, there are plenty of reasons to be optimistic.

## What is ESG investing?

'ESG investing', in its most literal definition, refers to a method of investing that considers the **risks to company performance and profits posed by environmental, social and governance considerations.** For example, emitting pollution into the local environment might affect a company's reputation, and therefore its growth prospects.

You may also hear mention of "**responsible**", "**sustainable**", or "**ethical investing**", and these terms describe approaches that consider not only risks to the company, but also the **broader impact of its activities on society and the planet**. While exact definitions may vary, these terms generally refer to investment strategies that seek to support companies that are mindful of their impact on people and the planet.

The terms used (ESG/responsible/sustainable, etc.) do all have slightly different meanings, but for the purposes of this paper, they all represent the concept of seeking to invest with people and planet in mind, not just profit.

You can learn more about all types of investing in our article on understanding responsible investing.



1 www.ons.gov.uk/economy/environmentalaccounts/articles/publicandbusinessattitudestotheenvironmentandclimatechangegreatbritain/2024
2 www.grandviewresearch.com/horizon/outlook/esg-investing-market/uk

## Why the distrust and confusion around ESG and sustainable investing?

With growing markets come growing pains, and unfortunately, a previous lack of clear standards and regulatory oversight paved the way for less-than-scrupulous investment firms to take advantage. **Greenwashing is a problem**[3], with the financial services industry seeing prolific use of misleading language, selective disclosure and/or branding trickery to obscure the facts.

A particular issue that we have seen is 'ESG investment funds' claiming that not holding oil and gas companies in their portfolio 'saves' or 'reduces' carbon emissions. Whilst it may end up being necessary to exclude oil and gas companies from investments that refuse to engage, the fundamental problem with the claims made is that there is no reduction in actual carbon emission savings in real terms.

## How is the FCA tackling this?

The Financial Conduct Authority (FCA) is tightening regulations to tackle false advertising and to drive up trust in legitimate and responsible investment options. **Writing to UK Authorised Fund Managers**[4] in 2021, it set out its expectations around the guiding principles for design, delivery and disclosure of ESG and sustainable investment funds.

In May 2024, it also introduced an **anti-greenwashing rule**[5] as part of its Sustainability Disclosure Requirements (SDR), and soon after, '**Sustainable investment labels**[6]' were introduced, with four clearly defined categories to help clients recognise investment funds with different sustainability goals.

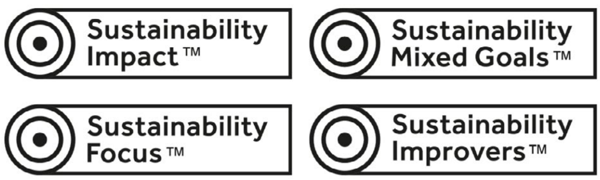



Figure 1: The FCA's four sustainable investment labels



3 www.esgtoday.com/85-of-investors-say-greenwashing-is-a-growing-problem-ey-survey/
4 www.fca.org.uk/publication/correspondence/dear-chair-letter-authorised-esg-sustainable-investment-funds.pdf
5 www.fca.org.uk/publications/finalised-guidance/fg24-3-finalised-non-handbook-guidance-anti-greenwashing-rule
6 www.fca.org.uk/consumers/sustainable-investment-labels-greenwashing

## So what is a good ethical investment fund?

The honest answer (which is the only type of answer that we deal in) to this question is that there's no such thing as the perfect sustainable investment. Any decision will involve a series of trade-offs to find a balance that feels right for you, and that can be different for everyone. There's no 'perfect match', regardless of your financial and sustainability goals. Instead, it's about fully understanding your options and finding a compromise which balances your individual needs and risk profile with the potential impact you want to have on the planet and its people.

That's why we take time to ask the right questions, challenge your thinking and gain a thorough understanding of your financial goals and wider values. Whichever option you choose will come with risk and compromise, and we will be honest about what those risks and compromises are.

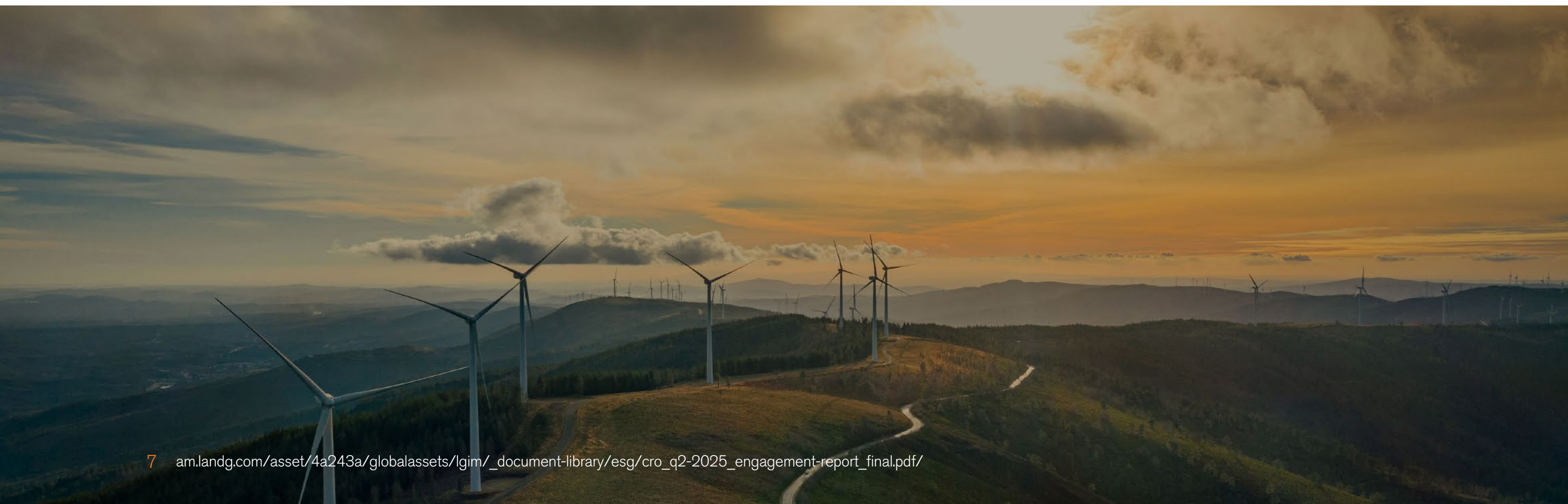
## What do our portfolios do to encourage actual change?

When faced with a company that is not operating ethically, investors have two choices: engage or divest. In our experience, engaging with a company to hold its board to account, and engaging with the company's suppliers or clients/customers often has the potential to have more impact.

By **engaging** with a company in this way, stakeholders can potentially influence the company's behaviour for the better by nudging over time. Good engagement should also include collaborating with other shareholders in a company, and engaging with regulators, governments and NGOs to drive systemic change. There's plenty of evidence of what this looks like in action in Legal & General's quarterly **Engagement Report**[7]. While results can be slow, the long-term influence has the potential to drive meaningful change.

At Paradigm Norton, through our responsible and intentional portfolios, we place the focus on engagement. We believe that, to achieve meaningful change, we need to see change from established companies and support the companies championing the technologies of the future. It won't solve all our problems, and not all companies will listen, but we believe engagement gives us the best chance of creating real-world change within a portfolio of stocks and shares held on publicly traded markets.

An alternative ESG investment technique is to **divest** from a company, i.e., sell your shares, if it is not operating ethically. This approach certainly has its place, but it can have varying levels of impact, and by divesting, you are giving up your 'voice' in the future of the company. It can send a signal or message against harmful practices, particularly when used as a final sanction accompanied by some targeted engagement. However, if you are simply divesting without engagement, the company will likely not even be aware that you've divested, or your reasons why, so it is unlikely to lead to any real-world change.



7 am.landg.com/asset/4a243a/globalassets/lgim/_document-library/esg/cro_q2-2025_engagement-report_final.pdf/

# Choosing how to invest

## Everyone's views and circumstances are different, so we offer different options.

We believe it's possible to maximise returns whilst investing responsibly. The majority of our clients have chosen to move away from a traditional investment approach, but we continue to support a minority to invest in this legacy portfolio.

All three strategies are evidence-based, and as much as possible seek to maximise returns by applying our investment philosophy and principles, such as being well diversified. Figure 2 explores these portfolios in more depth.

| | PN Traditional | PN Responsible | PN Intentional |
|---|---|---|---|
| **Approach to investing and financial returns** | | | |
| Maximises risk adjusted returns through a systematic, low-cost, evidenced-based approach. | ✓ | ✓ | |
| Financial returns are balanced with seeking to support companies having a positive impact on people and planet. | | | ✓ |
| **Approach to supporting people (society) and the planet** | | | |
| Focuses on using your 'shareholder voice' to try and influence companies held to behave more responsibly with people and planet in mind | | ✓ | ✓ |
| Screens out some of the 'most harmful' companies you might not wish to be associated with* | | ✓ | ✓ |
| Significantly reduced exposure to fossil fuel companies and companies harming the planet | | | ✓ |
| Intentionally invests into companies seeking to help solve global challenges as defined by the UN 17 SDGs** | | | ✓ |

Figure 2: Our three portfolios[8]

## PNt: Paradigm Norton Traditional

Some clients simply want their money to work towards keeping them financially secure and building a good retirement fund (although they may still look to achieve impact elsewhere through philanthropic activities). This is a legacy portfolio for us, as we have designed our Responsible portfolio (see below) to maximise risk-adjusted returns, so the majority of our clients have chosen to move to our responsible option.

## PNr: Paradigm Norton Responsible

This is our default portfolio and is focused on using investors' shareholder voice and rights to encourage companies to behave more responsibly. In practice, this means fund managers voting at company AGMs on investors' behalf to support ESG-focused resolutions, sometimes proposing their own resolutions, or in some more extreme cases, voting against the reappointment of directors. It also means actively engaging with CEOs/chairs/boards on key issues and lobbying the Government and other bodies. In this portfolio, there is some limited screening out of 'harmful' companies, avoiding the 'worst offenders' that our investors would rather not be invested in, or companies that continue to refuse to engage in ESG-led conversations with fund managers.

## PNi: Paradigm Norton Intentional

For clients who want to go further to ensure their investments support businesses with proven and legitimate sustainability credentials that are measured against the **UN's Sustainable Development Goals**[8] (SDGs), we have the Paradigm Norton Intentional portfolio. This portfolio invests in a much narrower subset of companies, most of which are aligned to the SDGs. By this, we mean that they derive a significant amount of their revenue from products / services that are advancing solutions to one or more of the SDGs (where measurable). We're honest with clients that, as the costs of investing in this way are higher and the portfolio is more concentrated, it is reasonable to expect that there could be a small return trade-off.

8 sdgs.un.org/goals

# What does the future of sustainable or ESG investing look like?

We believe that, done right, investing carries the potential to do real good in the world. There's an urgent need to get capital flowing to the places where it's needed most to drive changes in the world for people and communities. Sustainable investing supports this, and there is plenty of room for ongoing innovation.

We will always go above and beyond to give you transparent information and realistic advice that helps you make informed investment decisions that align with your goals and values.

# For life, not money

Founded in 2001, Paradigm Norton has one clear aim: "To impact the lives of our clients and our community for the better, forever." We are a **B-Corp**, which means we have changed our own articles of association (our legal purpose as a company) to be focused on people and planet, not simply profit. And as an **employee-owned company**, we're here for the long term, and we're one team all working together to be a force for good.

If you'd like to talk through your sustainable investing options in more detail, **contact us** today.

Paradigm Norton *for life*

**Philippa Hann**

CEO

**Steve Watters**

Head of Impact

**David Burridge**

Regional Director & Head of PN Investment Committee


### Global Good Finance Awards 2025

**Steve Watters -** Sustainable Finance Leader of the Year (Gold)

**Paradigm Norton's Investment Committee -** Sustainable Finance Team of the Year (Silver)


### Wealth For Good Awards 2025

**Steve Watters** - Leading Individual in Wealth For Good (UK)

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