TFSA Investors: Get Started With ESG Investments

Description

Investors have become increasingly aware of the wider impact of their investment decisions. This has driven a number of investors and institutions to ditch companies that are deemed "bad for society" and support firms that are trying to make a positive impact.

Taking environmental, social, and governance (ESG) factors into consideration is the hottest new trend on the street. Here's how this emerging trend could reshape the global markets and alter the performance of your portfolio – and how you can get involved to boost your returns in 2020.

The impact

Whales make the biggest splash. The wealthiest investors and largest institutions have an unimaginable impact on the global financial system.

In recent years, it's become clear that some of these whales have embraced ESG investing for the long term. Norway's sovereign wealth fund decided last year to divest from companies that produce oil or gas. The fund has US$1.1 trillion in assets under management and is considered to be one of the most influential investors in the world.

Back home, the Canadian public pension fund decided to ditch American private prison companies. Canada's largest pension fund now faces pressure to divest from gun manufacturers and tobacco producers as well.

Big divestments from these sectors are causing a surge in the amount of capital flowing to ESG funds across the world. Last year, global ESG funds had an estimated $30 trillion in assets under management. That's 50% larger than the US economy. Retail investors can't ignore this trend any longer.

How to get started

Whether you're driven by moral obligation or simply responding to a shift in global preferences, there's plenty of ways for you to get involved in the ESG trend in your Tax-Free Savings Account (TFSA).

Bank of Montreal launched seven TFSA-eligible ESG exchange-traded funds earlier this year. The company says it's responding to the results of a recent investor survey that indicated plenty of demand for these instruments. The **BMO MSCI Canadian ESG Leaders Index ETF** seems particularly interesting because of its low costs (0.17% expense ratio) and high diversification.

BMO isn't alone. If you're looking for a convenient way to add ESG exposure to your portfolio there are plenty of other ETFs managed by major Canadian banks and asset managers. However, for investors looking to create their own portfolio things could get tricky.

Canada's stock market is dominated by energy and cannabis stocks that may not be ideal for an investor trying to make a positive difference. Instead, investors may have to turn to smaller companies focused on sectors such as green energy or senior care.

Brookfield Renewable Partners or **Sienna Senior Living**, for example, could be excellent additions to an impact-oriented ESG portfolio.

Bottom line

The world's biggest and most influential investors seem to be moving capital away from certain sectors and into companies that are trying to make a positive impact. This trend is now worth $30 trillion and could soon grow much larger. Retail TFSA investors can join the trend by adding ESG funds or stocks to their portfolios.

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Date
2025/08/26
Date Created
2020/02/22
Author
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