SUSTAINABLE INVESTING

THE GOAL OF INVESTING
IS MORE THAN JUST FINANCIAL GROWTH

Sustainable investing, an approach that integrates environmental, social and governance (ESG) criteria, is becoming a much sought-after strategy in the financial industry. Whether implemented through socially responsible investing (SRI) screening, ESG integration or impact investing, sustainable investing offers a growing number of options for investors interested in pursuing goals beyond financial growth when building their portfolios.

WHAT IS IT?

Through sustainable investing, not only can investors aim to make a positive impact on society and the environment, they can potentially improve the risk/return characteristics of their portfolios by factoring environmental, social and governance (ESG) criteria into their investment decisions.

Objectives

- Encourage positive environmental, social or governance practices
- Align investments with personal values
- Potentially improve portfolio risk/return characteristics

Desired Outcomes

Whereas conventional investing is focused on risk/return, and philanthropy seeks solely to benefit charities and causes without return or income consideration, sustainable investing looks to accomplish both in varying degrees along a spectrum of possible outcomes.

WHAT ARE THE APPROACHES?

While there is a common theme of pursuing a greater purpose, there is much variety within sustainable investment strategies, particularly in how they are implemented. Implementation generally takes the form of one or more of the following approaches:

Exclusionary Screening

- Viewed as the original approach to "responsible" investing
- Also known as socially responsible investing or negative screening
- Excludes individual companies or entire industries from portfolios if their activities conflict with an investor's values, such as fossil-fuels, gambling or alcohol
- Limits investable universe, which could impact diversification

Integration

- Combines ESG criteria with traditional financial considerations
- Gaining momentum as portfolio managers consider ESG themes in their decision-making process
- Sometimes implemented as a best-in-class approach by identifying and investing in companies that are the best ESG performers within a sector or industry group
- A study conducted by the CFA Institute cites integration is the most commonly used method[1]

Impact Investing[2]

- Aims to have a social or environmental impact alongside financial return, with a focus on intentionality and measurement of impact
- Ranges from grant support to private equity; liquidity risk and return target can vary dramatically
- Most common products are funds invested in private equity and venture capital
- Accredited investors and funds are the leaders in impact investment by asset level

Other Dimensions

- Thematic investing – focuses on a specific ESG theme, and structures a portfolio around companies or industries that support that theme
- Shareholder engagement (activism) – actively engages with a company, directly working with management or exercising shareholder rights to effect change

WHY SHOULD YOU CONSIDER IT?

The paths to pursuing effective global stewardship and possible growth are coming together in the investor mindset. Sustainable investing, when incorporated into a well-defined, long-term investment plan, can be a powerful tool in addressing global challenges while achieving personal financial goals.

Investors may consider sustainable investing for a host of reasons:

- **Risk Mitigation:** Companies that ignore their social and environmental impacts may face regulatory and governance risks.
- **More conscious approach to investing:** Investors may aim for a positive impact or avoid ties to questionable activities.
- **Long-term performance:** Companies with a negative reputation or poor business practices may not be sustainable.
- **Align investing with personal or religious views:** Investors may not feel comfortable investing in companies whose business practices they view as morally objectionable.
- **Fiduciary duty:** Professional asset managers have a responsibility to invest within certain standards that represent their clients' interests, which would likely make investments in companies with unsustainable practices less appropriate.

The future is at your fingertips.

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[1] *CFA Institute, "ESG Issues in Investing: Investors Debunk the Myths." 2015*

[2] *Global Impact Investing Network, "What You Need to Know About Impact Investing,"* https://thegiin.org/impact-investing/need-to-know/#s2

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