SUSTAINABLE INVESTING EXPLAINED

Making an impact on your portfolio and the world

RAYMOND JAMES®

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 achieving goals beyond financial growth when building their portfolios.

Sustainable investing considers that progress toward solving global challenges such as climate change, social inequality and unfair business practices can be made by investing in companies and enterprises that promote sustainability or have sustainable business practices. This is not to imply that other forms of investing are unsustainable, rather these approaches aim to equip investors with additional information for choosing investments to meet all of their goals.

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 ESG criteria into their investment decisions.

WHAT IS SUSTAINABLE INVESTING?

Sustainable investing describes investment strategies that incorporate ESG considerations into investment decisions to better assess risk and opportunities. These strategies usually seek to reach one or more of the following objectives:

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

IT'S NOT JUST ABOUT FEELING GOOD

Beyond achieving the peace of mind that your investments are having a positive impact, studies have shown that companies that operate in a sustainable manner provide better investment performance[1]. There are many factors playing into why these companies may outperform, ranging from the ability to attract and retain better human capital to sourcing resources using sustainable means. There is a growing belief that companies that ignore ESG factors may become vulnerable to increased regulation or be required to pay punitive fines to governments. The CFA Institute found that 63% of investors who take ESG issues into account in making investment decisions do so to help manage risk as a part of their long-term financial plans.[2]

[1] Eccles, Robert G. and Ioannou, Ioannis and Serafeim, George, "The Impact of Corporate Sustainability on Organizational Processes and Performance." (November 23, 2011). Management Science, Forthcoming.

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

Disclaimer: There is no assurance that sustainable investing companies will meet these objectives. Investing involves risks including the possible loss of capital.

DIFFERENT APPROACHES TO SUSTAINABLE INVESTING

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

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

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]

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

[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

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.

CONVENTIONAL INVESTING
Seeks an acceptable risk/return profile with no investing limitations beyond suitability

EXCLUSIONARY SCREENING
Aims to align investing with client values through exclusion of companies whose practices are contradictory to the beliefs of the investor

The growing interest for sustainable or ESG investing has reached **$7 trillion** in these strategies in 2016, which is nearly double the 2012 figure of $3.7 trillion.[1]

Assets under management using sustainable, responsible and impact strategies account for more than **one out of every six dollars** under professional management in the United States.[1]

WHY INVESTORS MAY CONSIDER SUSTAINABLE INVESTING

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 values – 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.

To learn more about sustainable investing, and if it's right for your long-term financial plan, talk to your financial advisor today.

[1] 1. US ISF Foundation, "SRI Basics." 2015.

INTEGRATION
A strategy that considers ESG criteria as part of its analysis and portfolio construction to mitigate risks or invest in best-in-class companies

IMPACT INVESTING
An intentional and measurable social or environmental impact through investing

PHILANTHROPY
The promotion of causes through direct financial support

The paths to achieving 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.

LIFE WELL PLANNED.

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