10 Things You Should Know About Sustainable Investing

Sustainable investing covers a wide range of approaches. Here are some key things to consider.

1. **Terminologies may differ** – There are many approaches under the sustainable investing umbrella. Examples include environmental, social, and governance (ESG) integrated; ESG focused (otherwise known as sustainable); and impact investing. There isn't currently a uniform definition of these terms, and different asset managers may define them differently.

2. **Environmental, social, and governance –** ESG criteria are one way to evaluate how a company behaves. For example, environmental standards can measure how a company treats natural resources; social standards can evaluate how a company manages relationships with its community; and governance criteria can focus on issues such as diversity on corporate boards (**FIGURE 1**).

3. **Not about giving up returns** – Some historical data indicate that there hasn't been a performance trade-off with ESG-focused funds. In fact, sustainable funds "outpaced conventional peers" in 4 of the last 5 years.[1]

4. **ESG factors may provide greater insight** – ESG research is information (in the form of data and ratings) about ESG issues that may affect investment decisions. Investors can help hedge their portfolios against risks stemming from ESG factors such as climate disasters, while also seeking to capitalize on opportunities such as the transition to renewable energy.

5. **ESG in action** – The emphasis placed on ESG criteria vary across funds. Some portfolio managers may view ESG factors as *one consideration among many* as they make their investment decisions. Other portfolio managers may demonstrate a higher level of commitment to ESG investing by making it a *key consideration* in their investment decisions.

6. **Not all data providers are the same** – ESG data can vary widely between third-party data providers and may not be forward looking. Proprietary quantitative and qualitative ESG research performed by active managers may provide a more comprehensive analysis than third-party data providers.

7. **Not just for Millennials** – Contrary to popular opinion, many investors across all ages feel positively about a sustainable portfolio: 44% of people age 71+ as well as 60% of people age 18-37 rated it favorably.[2]

8. **Sustainable investing can be smart investing** – Many ESG factors can have a financially material impact on valuations. Active managers are eager for clear and consistent information to inform investment decisions. Using ESG research is one way to better manage risks and opportunities.

9. **Something to talk about** – A study found the top five concerns for institutional investors are climate change/carbon, conflict risk, board issues, sustainable natural resources/agriculture, and tobacco.[3] Your list may be quite different.

10. **ESG may be here to stay** – A recent study found that 88% of US fund managers have made ESG a bigger priority over the past year.[4]

FIGURE 1
Examples of ESG Factors

Talk to your financial professional to see if sustainable investing is a sensible strategy for your portfolio.

[1] Source: Morningstar, "5 ESG Funds That Rebounded in 2023," 12/18/23. Data as of 11/30/23. **Past performance does not guarantee future results.**

[2] Source: Schroders, "Beyond Profit: Sustainable Investing," 2021. Based on research collected from 23,000 people who invest globally. In the study, Schroders defines "people" as those who will invest at least €10,000 (or the equivalent) within the next 12 months and those who have changed their investments within the last 10 years.

[3] Source: US SIF, "US SIF "Trends Report" Documents Sustainable Investment Assets Of $8.4 Trillion" 12/13/22. The Trends report counts two main strategies as sustainable investing: ESG incorporation—applying various ESG criteria in investment analysis and portfolio selection—and filing shareholder resolutions on ESG issues.

[4] Source: Ignites, "Asset Managers Continue to Flock to ESG: Study," 6/30/23.

Important Risks: Investing involves risk, including the possible loss of principal. • Integration of environmental, social, and/or governance (ESG) factors into the investment process may not work as intended. • Focusing on investments that involve sustainable initiatives may result in foregoing certain investments and underperformance comparative to investments that do not have a similar focus.

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