INVESTING ALIGNING WITH INVESTORS' VALUES GROWS IN POPULARITY

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Most of us try to do our part for the environment. We recycle. Some of us buy hybrid cars. Most of us also tend to support social causes we believe in, and that sense of social and environmental responsibility often carry over into the products we buy and how we choose to invest.

Interest in Investing for a Purpose

According to a 2019 Morgan Stanley survey, more than eight in 10 individual investors have expressed interest in sustainable investing, while half take part in at least one sustainable investing activity. Interest and adoption of sustainable investing has grown steadily since 2015.[1]

The terms "values-based investing," "socially responsible investing" and "impact investing" take this idea a step further into what is known as ESG or "Environmental, Social & Governance" standards. "Environmental" means evaluating the impact a company has on the environment. "Social" factors consider how a company deals with customers, employees, suppliers and the broader communities in which it operates. "Governance" considers a company's management, compensation, internal controls and shareholder rights.

By all indications, impact investing is a growing trend. The Forum for Sustainable and Responsible Investment reports that, investors consider environmental, social and governance (ESG) factors across $12 trillion of professionally managed assets—a 38% increase since 2016.[2]

Despite these trends, there is still a big gap between the level of interest in sustainable, responsible and impact investing and the number of people using such an investment strategy. In other words, a lot more people say they are interested in a values-based approach to investing than are actually using one.

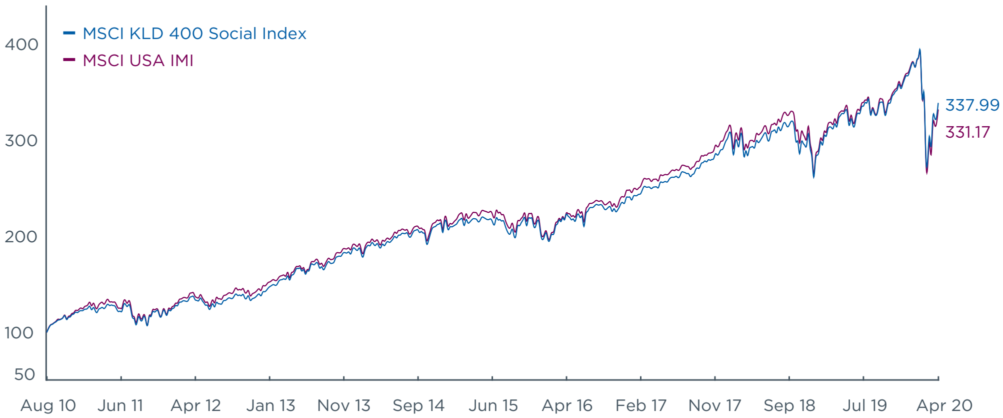
Obstacles and Objections

One reason investors don't follow through with their interest in sustainable, responsible and impact investing is a perceived level of difficulty with implementing the plan. Mutual funds own dozens or even hundreds of different companies, and it would be unreasonable to expect those who are not financial professionals to be able to monitor and track all of these underlying investments. As a result, those of us owning mutual funds don't always know what we own and what types of values those companies espouse.

Fortunately, individuals no longer have to screen their own investments to ensure they align with their values. The number of investment options offering a values-based screen has grown considerably.

The second reason why more investors have not incorporated a values-based approach is due to common misperceptions about the performance of these investments. Many people believe incorporating values into investment decision-making negatively affects performance.

CUMULATIVE INDEX PERFORMANCE — GROSS RETURNS (USD)[3]
(Aug 2010 - April 2020)



ANNUAL PERFORMANCE (%)[3]

Year	MSCI KLD 400 Social Index	MSCI USA IMI
2019	31.63	31.14
2018	-3.50	-5.20
2017	21.61	21.28
2016	10.92	12.66
2015	0.94	0.64
2014	12.72	12.51
2013	36.20	33.39
2012	13.24	16.41
2011	1.60	1.23

The chart above demonstrates that, over a 10-year period, the performance of ESG companies is relatively close to that of the overall market.

In addition, a 2019 Morgan Stanley report concluded that, *"there is no financial trade-off in the returns of sustainable funds compared to traditional funds."* The research included the performance of nearly 11,000 U.S. mutual funds over 14 years. The results showed that returns of "sustainable funds" (a term used for various types of funds using social, environmental and values-based screening criteria) were in line with traditional funds while helping to reduce downside risk.[4]

There is often a false dichotomy between successful investing on the one hand and caring about the social impact of companies being purchased on the other. It is stated as if the two are mutually exclusive and that the de-facto result of integrating values into your investing methodology is poor investment decisions.

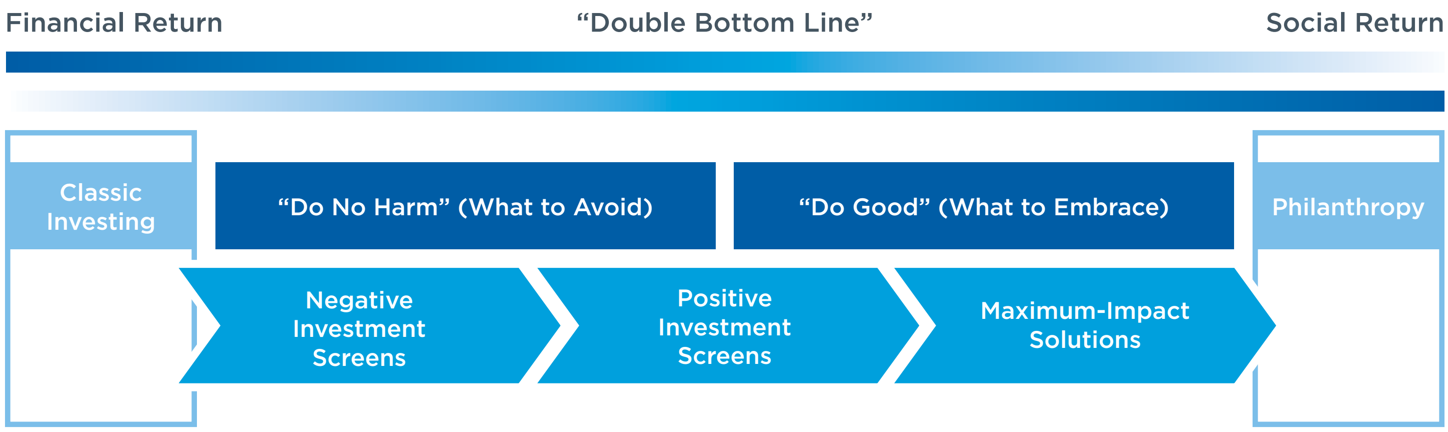
Yet, part of the reason for the explosion in growth of values-oriented investments is due to the aforementioned research which consistently shows a positive correlation between investment returns and ethical screens. Far from being driven by guilt or “touchy-feely” decision-making, many investors have found the long-term investments they like are the companies that have the most integrity in terms of their mission, culture and sense of corporate responsibility.

Negative and Positive Screening

If you are interested in implementing such an approach, there are two primary investment objectives beyond the traditional goals of maximizing return and minimizing risk to help you make strategic decisions:

1. *Do No Harm* – Consider avoiding investments in companies that take a stance or profit from activities that conflict with your values. These are “negative” screens of companies or industries to be avoided, such as tobacco, gambling, oil and gas, defense, etc. Obviously, one person’s idea of socially responsible investments can be completely different from another person’s. The key is to differentiate between all of the available fund options and select those that most accurately reflect your values. The Forum for Sustainable & Responsible Investment is a good place to start. For those with a faith-based or religious perspective, the Christian Investment Forum can be helpful.

2. *Do Good* – Actively seek out investments in companies that create real value for their customers, communities and society at large. This approach often applies the aforementioned ESG factors as positive screening criteria.



It is helpful to think of parallels to the medical industry. Physicians take an oath to “do no harm.” It is fundamental to the practice of medicine. But, the goal is certainly not to stop there. The ultimate goal of medicine is to heal. Likewise, investors who want to integrate their values with investment decision-making may decide to not merely seek to avoid companies doing harm, but ultimately look for companies that heal; those that are helping to make the world a better place.

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[1] "*Morgan Stanley Finds Investor Enthusiasm for Sustainable Investing at an All-time High*," Morgan Stanley.
[2] "*Report on US Sustainable, Responsible and Impact Investing Trends 2018*," US | SIF Foundation.
[3] "*MSCI KLD 400 Social Index*," msci.com.
[4] "*Sustainable Reality: Analyzing Risks and Returns of Sustainable Funds*," Morgan Stanley.

The MSCI KLD 400 Social Index is a capitalization weighted index of 400 US securities that provides exposure to companies with outstanding Environmental, Social and Governance (ESG) ratings and excludes companies whose products have negative social or environmental impacts

The MSCI USA IMI is an equity index of large, mid and small cap companies. The Index is designed for investors seeking a diversified benchmark comprised of companies with strong sustainability profiles while avoiding companies incompatible with values screens.

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