



## Growing Interest in Socially Responsible Investing

U.S. assets invested in socially responsible strategies topped \$17.1 trillion at the start of 2020, up 42% from two years earlier. Sustainable, responsible, and impact (SRI) investments now account for nearly one-third of all professionally managed U.S. assets.<sup>1</sup> This upward trend suggests that many people want their investment dollars to pursue a financial return and make a positive impact on the world.

There is also wider recognition that good corporate citizenship can benefit the bottom line. A favorable public image might increase sales and brand value, and conservation efforts can help reduce costs, improving profit margins. Some harmful business practices are now viewed as reputational or financial risks that could damage a company's longer-term prospects.

### ESG Explained

SRI strategies incorporate environmental, social, and governance (ESG) considerations into investment decisions in a variety of ways. ESG data for publicly traded companies is often provided alongside traditional financial data by investment research and rating services. Some examples of prominent ESG issues include climate change, sustainable natural resources, labor and equal employment opportunity, human rights, executive pay, and board diversity.

A simple exclusionary approach (also called negative screening) allows investors to steer clear of companies and industries that profit from products or activities they don't wish to finance. These choices can vary widely depending on the individual investor's ethics, philosophies, and religious beliefs, but alcohol, tobacco, gambling, and weapons are some typical exclusions.

Similarly, positive screening can help investors identify companies with stronger ESG track records and/or policies and practices that they support. Impact investing is a less common strategy that directly targets specific environmental or social problems in order to achieve measurable outcomes.

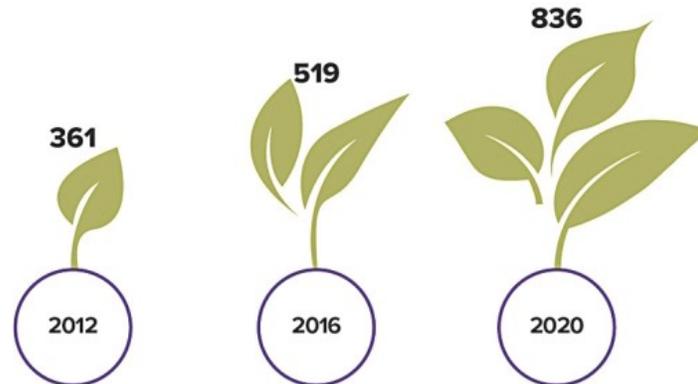
There are also a variety of integrative approaches that combine robust ESG data with traditional financial analysis. These tend to be proactive and comprehensive, so they are less likely to avoid entire industries. Instead, analysts and portfolio managers may compare industry peers to determine which companies have taken bigger steps to meet environmental and social challenges, potentially gaining a competitive advantage.

## Investment Opportunities

The range of investment vehicles used in SRI strategies includes stocks, mutual funds, exchange-traded funds (ETFs), and, to a lesser extent, fixed-income assets. Altogether, there are more than 800 different investment funds that incorporate ESG factors, and the field is expanding rapidly.<sup>2</sup>

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### Number of ESG Investment Funds



Source: US SIF Foundation, 2020

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Many SRI funds are broad based and diversified, some are actively managed, and others track a particular index with its own collection of SRI stocks. ESG criteria can vary greatly from one SRI fund to another. Specialty funds, however, may focus on a narrower theme such as clean energy; they can be more volatile and carry additional risks that may not be suitable for all investors.

Socially responsible investing may allow you to further both your own economic interests and a cause that matters to you. Moreover, recent research suggests you shouldn't have to accept subpar returns in order to support your beliefs.<sup>3</sup>

As with any portfolio, it's important to pay attention to the composition and level of risk and to monitor investment performance. Be prepared to make adjustments if any of your holdings don't continue to meet your financial needs and reflect your values.

The return and principal value of SRI stocks and funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. There is no guarantee that an SRI fund will achieve its objectives. Diversification does not guarantee a profit or protect against investment loss.

*Investment funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

<sup>1-2</sup> US SIF Foundation, 2020

<sup>3</sup> The Wall Street Journal, March 16, 2020

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