



## Talking to clients about ESG investing

The world has changed, and so too has the way our clients invest. Increasingly, clients want their investments to both make money and promote social good. They realize that with every investment, they have the power to either provide or withhold capital. They want help in determining how best to yield that power. To make decisions that feel best to them, they want to know more about the companies and funds they are putting their money into, and the stories behind the numbers on the balance sheet.

The growing interest in ESG investing — or investing with a view to environmental, social, and governance — may lead clients to question their existing strategies. They may want to test the waters to see what it might mean for

them to better align their portfolios with their beliefs. This curiosity presents a tremendous opportunity for advisors to showcase their expertise, forge closer bonds with clients, help them develop long-term strategies, and leverage new opportunities.

We've developed the four-step process in this guide to help advisors frame ESG conversations into the larger context of values alignment, the role money can play in helping clients achieve life goals, and how you can help. If you would like a refresher on the fundamentals of ESG Investing, we encourage you to participate in the advisor training, *Aligning Portfolios with Principles* found in MMLIS Distance Learning.

## Step I: Determine values and intentions

The objective of the initial step is to gain insights into what is important to the client, and how the client supports those causes. You are not judging either their causes or their efforts, rather seeking to understand whether and how they have chosen to demonstrate that support.

### Questions to ask:

What causes/issues matter most to you?

- How do you currently support these causes?
- Would you like to increase your efforts to support these causes? (Note: Only proceed if their response is affirmative.)
- If you would like to do more for these causes, what other avenues appeal to you?
  - Annual philanthropy/donor advised funds
  - Charitable giving strategies for estate planning

- A hands-on approach that could affect retirement targets: For example, do they want to retire early, take a conditional sabbatical, or request an extended leave for volunteer services?
- Investment portfolio development or restructuring to align with values

### Tip

- Maintain value neutrality and lack of judgement
- Reinforce objectivity by explaining range of options available, and how you can help regardless of the path chosen



## Step II: Where the client may land on the ESG investing continuum

If the client has an interest in looking into how his or her investment portfolio could better align with personal values, the next step is to plot potential interest to a defined ESG style. This will be somewhat of a level setting exercise, given that the phrase ESG investing means different things to different people.

### Questions to ask:

- Are there industries or companies you want emphasized in your portfolio?
- Are there industries or companies you want avoided?
- Do any of your current holdings include companies that you have now identified as exclusions, and if so, are you interested in divesting regardless of performance and/or tax implications?
- Would you like ESG factors to drive future decision-making? For example, we could:
  - Limit exposure to companies with poor ESG characteristics
  - Add exposure to companies pursuing change or poised to benefit from ESG transformation
- Do you want to maximize your investment's impact on a particular issue to generate positive and measurable results?
  - What portion of your portfolio should go towards this effort?

- Will you have different performance expectations for the investments you choose to make an impact on your causes vs. the remainder of your portfolio?
- Which phrases, if any, describe your ESG investment goals?

### Tip

- Develop a common language by reinforcing terms and definitions
- Describe common filters, like the exclusion of “sin” stocks, e.g., casinos, or the inclusion of clean energy
- Give examples of common impact investing, like buying mortgage-backed securities to funding affordable housing initiatives
- Rely on everyday language for clients to self-identify, then introduce the correlating investment term:
  - **Do no wrong** = values alignment
  - **Do some good** = ESG integration
  - **Make an impact** = Impact investing

Which phrase (if any) characterizes your ESG goals



Do no wrong



Do some good



Make an impact

## Step III: Assessing commitment

The client's exploration into ESG investing has now reached a critical juncture. You must now determine the level of commitment and definitions of success. Largely, the next set of questions will prompt reflection, urge prioritization of life goals, and most importantly, help the client to make informed decisions.

### Questions to ask:

- Will you consider non-performance factors, or ESG metrics, when evaluating your investments?
- Will you be satisfied and achieve life goals if investments achieve ESG goals, but underperform traditional benchmarks?
- Would you pay a higher management fee, if necessary, to work with an ESG-focused manager?
- Which ESG ratings or indicators will you rely upon to evaluate the overall performance of your ESG investments?

### Tip

- The client must reconcile the need for investment gain with their desire to do good and articulate the balance they are willing to strike.
- ESG investments don't necessarily underperform, but it's important the client knows that an ESG strategy may involve additional expense and oversight.

## Step IV: Expectations

The better you prepare for issues that may come up when clients review their investment performance reports, the more likely you can ensure satisfaction. Consider asking the following questions to kick off a dialogue about the complexities of ESG investing, and to foreshadow issues you may encounter over time.

### Questions to ask:

- Are you comfortable knowing that your objectives have been considered, but "perfect purity" is unlikely given the breadth of corporate activity, and the broad holdings asset managers oversee?
- Sometimes the most progressive work towards solutions is carried out by unlikely companies, for example, big oil investing in renewable energy initiatives. How would you like to resolve conflicting interests?
- Do you want to work with companies that communicate the story behind their numbers and explain the ESG implications behind their strategic initiatives?
- If a company fails to provide adequate evidence from which to evaluate its ESG claims, shall it be excluded from consideration?

### Tip

- Greenwashing happens when a company provides misleading claims to gain favor with ESG-investors. Marketing claims should be consistent with descriptions contained in company reports, disclosures, and published data.

While engaging in these critical conversations with clients, feel free to share our client brochure, Environment, Social and Governance Investing: Aligning Portfolios with Principles (MI1189). And, if you would like to learn more about incorporating ESG into your practice, we invite you to participate in our eLearning offering, Aligning Portfolios with Principles.



**Step I**  
What's important?  
What are you currently doing?  
Want to do more?

Yes

No

Stop

Annual philanthropy

Charitable giving/Estate planning

Hands on/Implication on retirement

Align investment portfolio

Review wills

Monte carlo simulations

**Step II**  
ESG investment style

Do no wrong

Do some good

Impact

**Step III**  
Assess commitment

Performance thresholds

Expenses

Benchmarking

**Step IV**  
Monitoring of client values

Expectations

## Resources

- [Aligning Portfolios with Principles eLearning on MMLIS Distance Learning](#)
- [ESG Investing reference guide on MMLIS Distance Learning](#)
- [MMLIS Environmental, Social, and Governance Investing client brochure](#)
- [MassMutual®'s view on sustainability and their ESG commitments](#)
- [MassMutual ESG Investment Policy brochure](#)
- [MassMutual's Net Zero press release](#)
- [MassMutual's Principles for Responsible Investment press release](#)
- [Envestnet Sustainable Investing education](#)
- [Envestnet NextGen Proposal ESG feature \(coming soon\)](#)
- [Morningstar Sustainability Rating](#)
- [Sustainalytics ESG Risk Ratings](#)
- [Wealth Management Investment Management Office](#)

### **FOR INVESTMENT ADVISER REPRESENTATIVES. NOT FOR USE WITH OTHER AUDIENCES.**

It is important to make sure clients fully understand any ESG-related products and services you will be providing, as well as the associated risks. MMLIS offers various products that include ESG considerations, but the advisor and MMLIS should not be promoted as experts or specialists in ESG investing. Clients should also understand that while ESG-related factors may be considered in making investment recommendations, their advisor and MMLIS will not be managing or monitoring their portfolios from an ESG-related perspective on an ongoing basis. Clients should also be aware that screening and selecting strategies and investments using ESG-related criteria reduces investment choice and results in exposures different from strategies or investments that do not use such criteria. As a result, there is a risk that an investment that was selected or a portfolio that was constructed with the consideration of ESG factors will generate lower financial returns than an investment that was selected or a portfolio that was not constructed with the consideration of ESG factors. Funds that incorporate ESG factors into the investment process may limit their exposure to certain types of investments. As a result, an investment in an ESG-focused fund may be less diversified relative to funds with similar strategies that do not have an ESG focus.

