BLOG

Introduction to Sustainable Investing

As most of you have long since realized, sustainable and responsible investing is more than just a niche. Increasingly, investors are asking how they can make a social and environmental impact with their investment dollars, so it's important for advisors to be prepared with the choices and information their clients want. Offering ethically and ecologically minded investment strategies empowers investors to invest according to their values, and this is a segment that is growing.

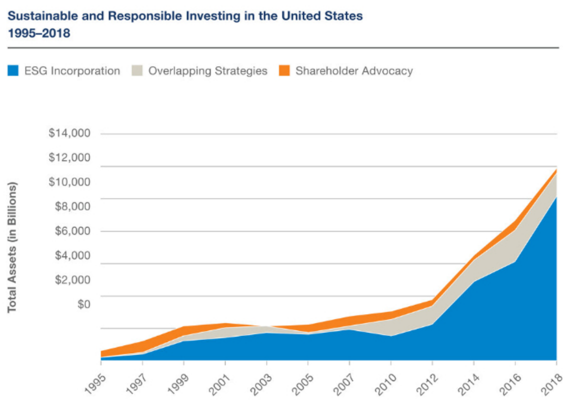

Chart source: US SIF Foundation

According to the US SIF Foundation, 26% of total assets under professional management in the US are designated sustainable and responsible, and this figure has grown over time. Notably, $12 trillion is invested sustainably, up from $8.7 trillion in 2016.This is a 38% increase in just two years.

Millennials represent a majority of the current workforce, and they are demanding options that will not simply help secure their retirement, but that will also have positive social and environmental outcomes.[1] Women investors are also keenly interested in impact investments and currently control approximately 51% of personal wealth in the US, estimated[2] at $22 trillion. Although women and millennials are increasingly seeking sustainable investing options, many advisors have not yet considered offering relevant strategies to their clients.

Why Not?

Some advisors are concerned that choosing sustainable investments means losing investment return. However, the longstanding notion that sustainable investing forces you to give up financial return has been proven to be false.

A meta-study[3] from the Journal of Sustainable Finance & Investment examined 2,000 other studies. Findings for an 18-year period show that in the long term, high sustainability firms dramatically outperformed low sustainability firms in terms of corporate financial performance (CFP) measures. The report claimed that "roughly 90% of studies found a non-negative ESG-CFP relation. More importantly, the large majority of studies reported positive findings. We highlight that the positive ESG impact on CFP appears stable over time."

Additionally, data from Morningstar (illustrated below) further supports the claim that sustainable investing is competitive with traditional investing strategies.

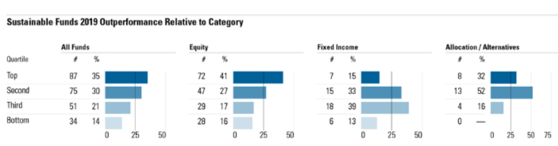

Chart source: Morningstar

Sustainable Solutions for Investors

Freedom Advisors works to empower advisors to offer clients investment opportunities that match investor values, including access to professional, diversified, multi-manager portfolios as small as $25,000. We partner with a variety of researched and vetted money managers like Green Alpha Advisors, HIP Investor, Horizon Investment Services, and others. Responsible investing is easy with Freedom Advisors.

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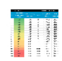
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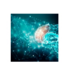
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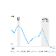
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Definitions*

- Negative Screen/Exclusions: The practice of excluding companies from an investment portfolio via company name or industry, such as tobacco, firearms, and gambling.
- Socially Responsible Investing (SRI): The first generation of responsible investing—eschewing investments in companies that produce or sell addictive substances (like alcohol, gambling, and tobacco) and identify certain areas that are removed with a negative screen.
- Environmental, Social, Governance (ESG): Socially conscious investors leverage particular criteria to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance criteria assess a company's leadership, executive pay, audits, internal controls, and shareholder rights.
- Impact Investing: Aims to generate specific beneficial social or environmental effects in addition to financial gains. Impact investments may take the form of numerous asset classes and may result in many specific outcomes. The point of impact investing is to affirmatively invest in companies that self-identify as ESG or that perform "positive screens" for companies engaged in social justice, environmental sustainability, or clean technology.

*Source: Investopedia

Article Sources:

(1) https://www2.deloitte.com/content/dam/Deloitte/us/Documents/about-deloitte/us-millennial-majority-will-transform-your-culture.pdf

(2) https://wealthtrack.com/51-percent-of-personal-wealth-in-the-u-s-is-controlled-by-women/

(3) https://www.tandfonline.com/doi/full/10.1080/20430795.2015.1118917

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