THE SEDORIC GROUP
of Steward Partners

Sustainable Investing

Aligning portfolios with passions and principals

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An Eye Toward the Future

Investors today are becoming more interested in environmental, social, and corporate governance (ESG) issues. When companies put a focus on these attributes there is strong evidence that the market rewards their actions. As investors continue to look for ways to align their money and their values, it is important that our role as fiduciaries progresses accordingly. As a historically innovative practice, we are pleased to incorporate sustainable investing within our umbrella of investment management services.

ESG: Aligning Financial Goals With Your Values

Today, it is common for investors to want to know more about the companies they're investing in. As you look to build your portfolio, you may be pondering questions such as: What are these companies doing to mitigate climate change? How do they use and dispose of resources? Is the workforce treated well? Is the board diverse? Are women paid equally? What policies does a firm support and what are their values? The change in societies, cultures, and markets is broadening our perception of the investment process.

Sustainable investing allows investors to consider goals beyond financial growth when building and managing their portfolios, while potentially improving portfolio risk and without comprising returns. Additionally, a strategy that considers sustainability permits the expression of one's values and standards within their savings and investments. Through sustainable investing, portfolios are able to reflect a more holistic illustration of an investor's personal and broader global goals.

Why Sustainable Investing?

- Mitigates risk
- Aligns with personal goals
- More conscious approach
- Proven long-term performance

The changes that have been made in the past decade as well as the cultural and institutional changes we see today are broadening our priorities throughout the investment process. When aligning your financial goals with your personal values, there is ample evidence that sustainability, and ESG factors specifically, have financial relevance.

About Sustainable Investing

Sustainable investing, also referred to as socially responsible or impact investing, is an emerging strategy in the financial industry that enables investors to align their portfolio with their passions and principles. Overall, it is a comprehensive approach to investing that integrates environmental, social and governance (ESG) factors into investment analysis, selection, and management.

Sustainable investing aims to provide investors with additional tools when considering which investments work best with their goals, both financially and beyond. There are numerous ESG factors to consider within sustainable investing, and a variety of investment vehicles that operate on their principles.

Where It Began

ESG investing has roots in our community, Portsmouth, New Hampshire. Pax World launched the first sustainable mutual fund in 1971, spurred by two United Methodist ministers looking to avoid investing church dollars in companies contributing to the Vietnam War. It is one of many funds that adheres to a standard of social and environmental responsibility available today.

What Factors Make an Investment Sustainable?

There are several factors by which companies are evaluated within the areas of environmental, social and governance practices. These factors help fund managers and investment firms better understand and analyze the company's commitment to sustainability, as well as whether the stock will prove to be a smart long-term investment.

Environmental

- Natural resource use
- Carbon emissions
- Energy efficiency
- Pollution/waste management
- Sustainability initiatives
- Climate change strategy
- Environmental policy

Social

- Workforce health and safety
- Diversity/opportunity policies
- Employee training
- Human rights
- Privacy/data security
- Community programs
- Supply chain management

Governance

- Board independence
- Board structure and diversity
- Shareholder rights
- Management compensation policy
- Business ethics
- Accounting quality

Approaches to Sustainable Investing

A common misperception of sustainable investing is that it is solely focused on eliminating problematic companies from portfolios, such as tobacco companies or gun manufacturers. While this is one method, it is not the only approach. Many sustainable funds take a more integrative approach, building a portfolio with companies that have adopted good ESG business practices, while others seek to identify companies that have made a positive impact on society part of its mission. Here are some of the approaches we see in sustainable investing today.

Integrative

Considers and integrates ESG factors in traditional investment strategies throughout the investment process. Uses environmental, social, and governance factors to mitigate risk and potentially generate high returns.

Screening

Screens to either include investments in companies that have a positive impact on society with their ESG factors (positive screening), or screens to exclude companies that are involved in sectors with a perceived negative impact on society (negative screening).

Impact

Intentional investments aimed to make a direct and measurable impact. It is the space of sustainable investing where financial return comes second to making a difference.

Sustainable Investing Is Good Business

Proven Successes

Blackrock investment management found that during notable market downturns in 2015-2016 and 2018, sustainable indices tended to outperform their non-sustainable counterparts. In Q1 of 2020, **94% of sustainable indices** in Blackrock's analysis outperformed their parent benchmarks.

Past performance does not guarantee future results.

Sustainable investing has gained momentum in recent years not merely for its relationship to achieving social, cultural and policy goals. Companies that are focused on ESG issues are less likely to face financial risks such as fines, lawsuits, and reputational damage. Engaging is less risky business practices makes a stock more appealing, and therefore has a greater likelihood of yielding higher returns over the long term.

Despite the business case for adopting ESG practices, there has been skepticism for years about whether sustainable investing can provide the same financial benefits as traditional investment strategies. A 2016 joint publication from the German financial firm DWS and the University of Hamburg sought to settle the debate by examining 50 years of data on the relationship between ESG investing and corporate financial performance. Their conclusion was that "the business case for being a good firm is undeniable."

"We hypothesized the market recognizes that higher ESG-rated companies have historically exhibited lower risk than other companies and has rewarded them via lower required capital costs accordingly," the study noted.

The old myths about sacrificing portfolio performance to invest by one's values are no longer relevant. Over 2,000 studies have found a positive correlation between high ESG performance and positive returns.

Lessons of Sustainable Investing

ONE

Sustainable investing is a strategy that has gained considerable ground in the investment world and will likely continue to advance.

TWO

The integration of ESG factors in sustainable investing offers additional options and approaches for investors.

THREE

The three most common approaches to sustainable investing are integration, screening, and impact investing.

FOUR

Sustainable investing accomplished both conventional investing and philanthropy to varying extents, depending on intention and aimed outcome.

FIVE

Financially driven goals and passion-driven goals can be aligned in supporting and advancing portfolios.

The Future of Sustainable Investing

Good Governance Matters

71% of survey respondents said that if during this time they perceive that a company is putting profit over people, they will *"lose trust in that brand forever."*

—Edelman survey of 12,000 people based in several countries

Covid-19 and protests for racial justice defined 2020 and were the cause of much market volatility. How companies responded to this moment greatly impacted its financial outlook. Investors and market analysts were looking for companies that were responsive, compassionate in messaging and deed, and focused on financial resilience. ESG companies were inherently well-positioned to face these challenges. OpenInvest reported in May 2020 that the current pandemic serves as validation of the sustainable investment portfolio.

"Investors have realized, in particular, that companies with proven commitment to their social and governance metrics are not only being recognized for stepping up to the monumental challenge to community health, safety, and wellbeing presented by the crisis—they are also proving themselves among the best prepared for market shocks, such as those presented by COVID-19."

A survey by the Financial Times and Savanta, the market research company found that almost nine in 10 wealth managers believed that the Covid-19 pandemic would result in increased investor interest in ESG investing. Those surveyed noted that people expect not just good service or a quality product, but for companies to operate responsibly and to do good.

While the tide is turning in favor of ESG funds and a savvy investment, there are those who caution that some ESG funds come with potential blind spots, such as being heavily weighted in companies with few employees. It is important to remember any investment decisions should be done after thorough evaluation of stocks and funds. Afterall, success in sustainable investing requires investment in companies that are both responsible and financially sound.

There is also a strong likelihood that future policies, tax, and other incentives will come to bear on sustainable firms much in the same way that agriculture, energy exploration, and housing have been incentivized in the past.

Build Your Sustainable Investing Portfolio

Your investment strategy should be focused on your goals and align with your values. We are here to talk further about how to build an effective, balanced, and sustainable portfolio. Please feel free to reach out for additional information.

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