

Sustainable investing: A socially conscious approach to investing

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What is sustainable investing?

With sustainable investing, you invest your money in a socially conscious way. Interest in this type of investing has been growing in recent years, given increased acceptance that environmental, social and governance (ESG) considerations can affect an investment's performance and because of changing investor demographics and preferences.

Increasingly, investors are considering ESG risks and opportunities. Some are motivated to improve investment decisions, while others want to align their portfolios with their values and personal views. Perhaps you want to encourage better corporate behavior or make a positive environmental or social impact. Regardless of your reason, there are many ways to invest sustainably. It's important to work with your financial advisor to determine the best approach for you.

Two broad categories of sustainable investing are:

- 1 Environmental, social and governance (ESG) investing**
- 2 Values-based investing**

What you need to know

- Sustainable investing has two broad categories: environmental, social and governance (ESG) investing and values-based investing.
- You can invest sustainably through individual stocks and bonds as well as professionally managed mutual funds, exchange-traded funds (ETFs) and separately managed accounts.
- Make sure the goals and objectives of a sustainable investment align with your expectations. Your financial advisor can help you understand any trade-offs so you can decide what's right for you.

While ESG and values-based investing may align with your values, they are different. For instance, values-based investing focuses on excluding or actively including investments targeting issues and causes important to you, while ESG investments consider a broader spectrum of issues and causes. Additional details on each category are explained on the following pages.

1. ESG investing

ESG investing incorporates environmental, social and governance considerations along with traditional financial measures.

- **Environmental** – Considerations include climate change, natural resource use and pollution. Companies can reduce carbon emissions, invest in renewable energy, decrease pollution or conserve water resources to reduce environmental risks and create opportunities.
- **Social** – Considerations include workforce well-being, product liability and social opportunities. Companies can promote gender and pay equality, prioritize diversity and inclusion, have positive labor relations and safe working conditions for employees, and have strong cybersecurity systems.
- **Governance** – Considerations include corporate governance and corporate behavior. Companies can institute stronger ethics policies, provide transparency on their financial reporting and set accounting policies that reflect the state of the business.

There is growing recognition that ESG-related risks and opportunities can impact a company's financial performance and therefore an investment's performance. For example, a company that pollutes may be at higher risk of increased expenses from environmental cleanup costs. Alternatively, a company that has invested in renewable energy may represent a good investment opportunity as power generation shifts away from fossil fuel sources. As a result, many company management teams integrate ESG considerations into managing their businesses.

Likewise, many professionally managed investments like mutual funds and exchange-traded funds (ETFs) incorporate ESG considerations into their traditional investment analyses. They may do this by integrating it as one part of their overarching investment process, or they might have a primary and intentional focus on ESG as part of the objectives of the investment. Those that integrate ESG considerations into decisions prioritize other goals (e.g., traditional financial goals) above ESG, and therefore the investments may not be marketed and viewed as sustainable investments. Many mutual funds and ETFs available at Edward Jones integrate ESG considerations but are not explicitly labeled as sustainable investments.

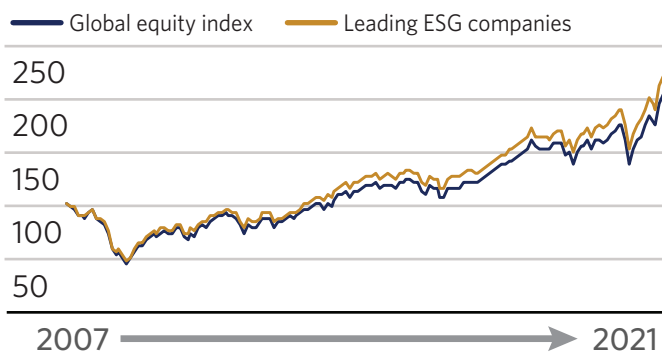
If you are interested in an ESG intentional investment approach, you can invest in companies that meet the ESG standards you are comfortable with or invest in ESG intentional funds. ESG intentional funds prioritize ESG considerations alongside traditional financial measures and explicitly indicate some level of ESG consideration in their fund design. These funds generally have access to dedicated ESG research teams, leverage proprietary ESG data and investment processes, and engage with company management teams to push for what they believe to be positive change. Some mutual funds and ETFs available at Edward Jones are considered ESG intentional funds.

ESG investing (cont.)

Investment performance and ESG

Some investors question whether intentional ESG investing can achieve competitive investment results. While all investments perform differently over time, this chart compares a broad group of global companies to those with the highest MSCI ESG ratings. MSCI is a reputable third-party ESG ratings provider that evaluates companies' exposure to ESG risks and opportunities, and their ability to manage them. The group of highly rated ESG companies performed roughly in line with the broader group.

ESG investing should not detract from performance



Source: Morningstar Direct. Index performance measured from 10/1/2007 to 2/1/2021. The global equity index is represented by the MSCI ACWI NR index and leading ESG companies is represented by the MSCI ACWI ESG Leaders NR index.

2. Values-based investing

Values-based investing helps align your portfolio with your personal values by excluding certain investments or targeting issues that are important to you. However, there are potential risks or trade-offs with this approach. For example, you can exclude entire segments of the market, such as tobacco companies, or investments that engage in certain business practices, such as animal testing.

If you want a professionally managed approach, separately managed accounts in our Unified Managed Account program provide a diversified portfolio with the ability to exclude a reasonable number of specific companies and/or certain categories of companies based on your preferences.

Another values-based approach is to target issues that are important to you through your investments. If you are interested in climate change, you could invest in a fund designed to promote climate change issues through clean energy or solar companies. If you want to express religious views, you can invest in certain faith-based funds.

Investment performance and values-based investing

Before choosing any investment, though, it's important to understand its goals and objectives. An investment may value nonfinancial goals more than financial returns. Also, introducing too many exclusions or focusing on a narrow area of the market may decrease your portfolio's diversification and materially impact its risk and return.

How you can take action now

- Work with your financial advisor to determine if you'd like to focus on sustainable investing.
- Decide how you'd like to include sustainable investments, recognizing that many mutual funds and ETFs available at Edward Jones integrate ESG considerations.
- If you want to reposition your portfolio, talk with your financial advisor about the best way to adjust your portfolio in light of taxes and other costs.