Responsible Investing

ALLODIUM INVESTMENT CONSULTANTS

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Responsible investing is an investment discipline that considers environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact. An increasing number of investors are seeking Investments that combine social and environmental impact with investing returns.

Responsible Investing Strategies

Socially Responsible Investing (SRI)

Investments align social values with returns. Companies that do not meet explicit SRI criteria are generally avoided.

Environmental, Social and Governance Investing (ESG)

Investments consider ESG criteria to determine ethical impact, sustainability and potential returns of a company. Examples include pollution and human rights.

Impact Investing

Investments include public and private equity and debt investments. Positive impact of ESG objectives is prioritized as much as financial return.

Active Ownership

Shareholders may advocate for improvements through voting and proposals.

Dispelling the Myths of Responsible Investing

1. ***Responsible investments underperform.*** Many responsible investing funds keep up with—and sometimes exceed the performance of traditional (non-responsible) funds. In 2018, Morningstar data compared 316 responsible funds with 6,500 traditional funds and showed that on average, SRI mutual funds have slightly outperformed their traditional fund counterparts in short, medium, and long-term time periods.[1]

2. ***Responsible investments are not affordable.*** Investing responsibly does not need to cost more. In a study in 2018, Morningstar found that sustainable funds in the U.S. are competitive in price on the whole.[2] Out of 395 mutual funds that Morningstar identified as socially conscious, over half (53%) had expense ratios that were lower than their category's average.[3]

3. ***Responsible investing is too complicated.*** Investors are often confused because there are few regulations that govern which funds can be categorized as socially responsible. Some fund companies simply recategorize existing products without making changes to their processes or holdings.[4] In addition, unnecessarily complex industry jargon may also act as a barrier for investors.

U.S. assets in sustainable, responsible, and impact investing strategies have grown from $639 billion in 1995 to nearly $12 trillion by 2018.[5] ***In 2018, responsible strategies accounted for one in four dollars under professional management in the United States.***[6] Before sustainable investing became prevalent, investors who were philanthropically inclined had few choices. Today, there are many more solutions available for investors who would like to align their portfolios with their values.

1. Charles Schwab Advisor Services (2020). Responsible Investing: Signs of a Growing Opportunity. Retrieved from https://advisorservices.schwab.com/insights-hub/perspectives/responsible-investing-opportunity-for-advisors.
2. Hale, J. (2018). Sustainable Funds U.S. Landscape Report, Morningstar, January 2018.
3. Iachini, M. (2019). Socially Responsible Investing Comes of Age. Insights & Ideas, Charles Schwab, Morningstar Direct, as of 12/21/2018.
4. Sindreu, J. & Kent, S. (2018). Why It's So Hard to Be an 'Ethical' Investor, The Wall Street Journal, September 1, 2018.
5. The Forum for Sustainable Responsible Investment, (2018). Report on US Sustainable, Responsible and Impact Investing Trends 2018. Retrieved from https://www.ussif.org/files/Trends/Trends%202018%20executive%20summary%20FINAL.pdf.
6. Ibid.