

Environmental Social and Governance (ESG) investing is not just a fad

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Executive Summary

Many investors desire to align their values with their portfolio. On an individual level some investors and advisors have been able to achieve this through screening processes or selecting individual securities. The desire for value-based investing has been popular with foundations and is now making its way into retirement plans of leading companies particularly those looking to attract younger employees.

History of values investing

Originally if an investor wanted to align their values with the companies they wanted to invest in they would have to hand pick securities (stocks and bonds) of companies that met with those values. Eventually screening processes were developed to assist with this selection process. This would evolve into Socially Responsible Investments (SRI) a process which creates screens of “vices” or undesired traits (ex. a cancer hospital not investing in tobacco companies) and excludes those companies from an investment. As the industry evolved Environmental Social and Governance (ESG) investing became popular as this process doesn’t look to be exclusive but instead inclusive of companies whose values make good corporate governance in the areas of environmental and social issues a priority.

Not just a fad anymore

Many advisors have called SRI or ESG a “fad” stating the best thing they could do for clients was to achieve the highest possible return. The latest guidance from Fi360 the organization that issues the Accredited Investment Fiduciary® (AIF®) designation still considers it prudent for even non-profit organizations to seek maximum return for their institution but states a substantial majority of institutional investors use ESG factors in their investment analysis.¹ While it may be easy to see a foundation leaning towards impact investing an increasing trend includes offering them alongside traditional investments in a retirement (401k) plan for companies that prioritize ESG values. Millennials (Gen Y) are leading this change with a significant majority looking for ESG investment options according to a report cited by the National Association of Plan Advisors (NAPA).² NAPA has been on the forefront of this research offering a certificate in ESG Investing for 401(k) Plan Advisors. While ESG might not be for everyone if it is a priority to you, it is important to find an advisor that understands these needs and can work with you to achieve them.

¹ Fi360. (2019) *Prudent Practices for Investment Advisors: Handbook Advisors*. Pittsburgh, PA: Publisher.

² Ted Godbout. (2022) Impact Investing is Here to Stay, Courtesy of Millennials. Retrieved May 11, 2022 from National Association of Plan Advisors: <https://www.napa-net.org/news-info/daily-news/impact-investing-here-stay-courtesy-millennials>