Outlook on Sustainable, Responsible and Impact Investing for Advisors

By Lisa Woll
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The demand for sustainable, responsible and impact (SRI) investing is growing. Investors now consider environmental, social and governance (ESG) factors across $8.72 trillion—or more than one in five dollars—of professionally managed assets in the United States. Client demand is one of the major drivers, ranging from individual investors to some of the country's largest institutional investors. Women, millennials and ultra-high-net worth individuals have been identified as leading groups interested in SRI.[1]

Despite the momentum, financial advisers have been slow to embrace sustainable and impact investing. *Wealth Management.com*'s David Armstrong wrote in June 2017, "Our research shows that advisors…haven't moved much on socially responsible investing over the past year. Most are aware of it, and some use it, but the numbers aren't necessarily increasing or decreasing in any meaningful way."

So why the disconnect? There are a few misconceptions and questions that have kept some advisors on the sidelines.

1. Lack of knowledge about relative financial performance

The evidence is clear that sustainable and responsible investors who align their investments with their values, or avoid companies with poor ESG practices do not sacrifice performance to do so. In fact, incorporation of ESG factors has been shown to reduce risk and enhance performance across asset classes. A compilation of performance studies is available at www.ussif.org.

2. Confusion about how to best integrate SRI into a client's portfolio

There are many ESG issues clients may consider and there are also several approaches including ESG integration, exclusionary screening, and the filing of shareholder proposals.

The World Economic Forum suggests a few strategies for advisors to consider with their clients, such as testing the waters through a one-off investment or creating a balanced impact portfolio by gradually overlaying responsible investing products or strategies across every asset class.[2] Arabella Advisors, ImpactAssets and Toniic also offer helpful guides and best practices.

Easing the process are the many ESG investment products now available. To assist clients, many fund managers specializing in ESG investing report on the impact of their investment selections.

3. Outdated notions of fiduciary duty

Some investment professionals worry that addressing ESG issues goes against their fiduciary duty. In a 2015 Interpretive Bulletin, however, the Department of Labor assured fiduciaries of private sector retirement plans "need not treat commercially reasonable investments as inherently suspect or in need of special scrutiny merely because they take into consideration environmental, social or other such factors."

As these concerns continue to dissipate we expect more advisors to embrace SRI investments in response to client demand. ■

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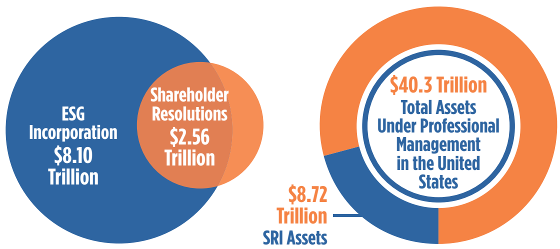
Learn more at www.ussif.org.

Size of Sustainable, Responsible and Impact (SRI) Investing 2016



Source: US SIF Foundation and Cerulli Associates

Note: ESG incorporation assets in this figure include those in community investing institutions.

The Forum for Sustainable and Responsible Investment

1. Morgan Stanley "Sustainable Signals: The Individual Investor Perspective" (2015) and U.S. Trust "Insights on Wealth & Worth" Survey (2016)

2. World Economic Forum, Impact Investing: A Primer for Family Offices (2014)