SAFETY ▪ STRENGTH ▪ STABILITY
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Newsletter

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SUSTAINABLE INVESTING

Sustainable investing is an umbrella term that describes investment strategies that allow investors to choose assets based on their ability to generate returns while simultaneously improving the planet and social outcomes. This strategy is not new but has been gaining momentum amongst both individual and institutional investors as it is increasingly considered a viable option. The three main types of sustainable investing are as follows:

ESG Investing

This takes into consideration three central factors – Environment, Social, and Governance (ESG) in measuring the sustainability and ethical impact of investing in a company alongside the traditional financial analysis.

Environment factors can range anywhere between natural resource use to climate change and other physical environmental challenges and opportunities. Investors typically consider a company's environmental performance using common measures such as carbon emissions, water and energy consumption, waste management and pollution.

Social factors take into consideration issues related to social trends such as demographic changes, social attitudes, social trust and other beliefs or behaviours. Investors use this metric to gauge the contribution a company makes to society.

Governance factors measure the quality and robustness of a company's internal structure and practices, its consideration for shareholder rights, its accountability and wider transparency framework. Measures of governance can include board structure, board independence, executive compensation or auditor independence.

ESG investors consider these factors to have an impact on the financial performance and the sustainability of an investment over the long term.

SRI

Socially Responsible Investing, also known as social investment, goes one step further than ESG investing by actively eliminating or selecting investments according to specific guidelines. SRI uses negative or positive screens to sort through investment options.

Negative screens exclude certain securities from investment consideration based on the investor's social or environmental preferences, e.g. alcohol or tobacco, gambling, weapon manufacturing, human rights violations or environmental damage.

On the other hand, inclusionary or positive screens allow investors to include companies in their portfolio with desirable characteristics such as the environment, employee relations or diversity.

The goal of SRI is to generate returns without violating one's social conscience.

Impact Investing

Investors who use impact or thematic investing, focus on positive outcomes. The main objective of their investment is to help accomplish specific goals that improve human conditions, and that can be beneficial to society or the environment. Impact investing takes a more active stance, investors seek investments that deliver benefits and contribute to solving the problems that plague society, whether it be renewable energy, social housing or clean water. Investing in non-profits is a prime example. They can vary from research and development of clean energy to community development.

Increasing Global Trend

Interest in sustainable investing has been steadily increasing. Its growing popularity coincides with the public's general increase in awareness of environmental and social issues. A 2018 survey by the U.S. Forum for Sustainable and Responsible Investment found that in the U.S., SRI and impact investing, accounted for more than $1 out of every $4 under professional management. This amounts to over $12 trillion in assets under management yearly.

The 2018 Global Sustainable Investment Review also reported that sustainable investment assets are increasing globally. At the start of 2018, global sustainable investment reached US$30.7 trillion in five major markets. This represents a 34% increase over the 2016 value of US$22.8 trillion. The breakdown by geography is shown in Figure 1.

Figure 1: Snapshot of Global Sustainable Investing Assets

Region	2016	2018
Europe	$ 12,040	$ 14,075
United States	$ 8,723	$ 11,995
Japan	$ 474	$ 2,180
Canada	$ 1,086	$ 1,699
Australia/New Zealand	$ 516	$ 734
TOTAL	**$ 22,890**	**$ 30,683**

Note: Asset values are expressed in billions of US dollars. All 2016 assets are converted to US dollars at the exchange rates as of year-end 2015. All 2018 assets are converted to US dollars at the exchange rates at the time of reporting.

Source: 2018 Global Sustainable Investment Review

The proportion of sustainable investing relative to total managed assets is also increasing as demonstrated in Figure 2. Australia/New Zealand registered the largest growth from 16.6% in 2014 to 63.2% in 2018. It can also be seen that in Australia/New Zealand as well as Canada, responsible investing assets accounted for the majority of total assets under professional management.

Europe, however, is the exception to the trend as it recorded a decline from 58.8% in 2014 to 48.8% in 2018 partly as a result of a shift to stricter standards and definitions for sustainable investing.

Figure 2: Proportion of Sustainable Investing Relative to Total Managed Assets

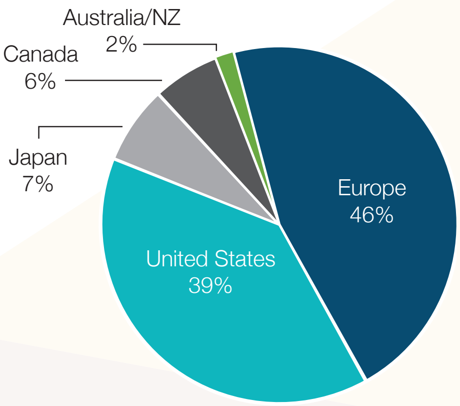
	2014	2016	2018
Europe	58.8%	52.6%	48.8%
United States	17.9%	21.6%	25.7%
Canada	31.3%	37.8%	50.6%
Australia/New Zealand	16.6%	50.6%	63.2%
Japan		3.4%	18.3%

In 2014, data for Japan was combined with the rest of Asia, so this information is not available.

Source: 2018 Global Sustainable Investment Review

Europe continues to be the dominant region in terms of where sustainable and responsible investing assets are domiciled globally with nearly half of global sustainable assets as shown in Figure 3. However, Japan has shown the most growth, as its proportion of global sustainable investing assets has quadrupled since 2016 while the United States, Canada and Australia/New Zealand have remained largely level over the past two years.

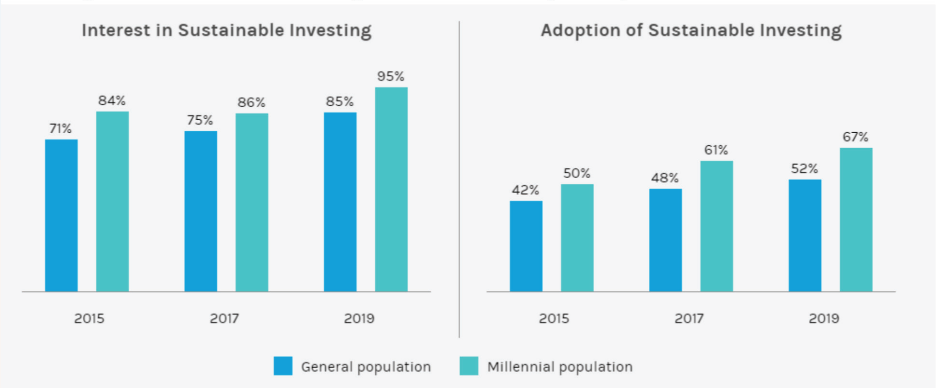
Figure 3: Proportion of Global Sustainable Investing Assets by Region



Source: 2018 Global Sustainable Investment Review

Morgan Stanley's Institute for Sustainable Investing's 2019 Sustainable Signals report, which surveyed 1,000 active individual U.S. investors also indicated that the popularity of sustainable investing continues to rise. The report stated that in 2019, 85% of the general population and 95% of millennials expressed an interest in sustainable investing up from 71% and 84% in 2015 respectively. This upward trend was also observed in the adoption as, in 2019, 52% of the general population and 67% of millennials reported to have at least one sustainable investing asset in their portfolio compared to 42% and 50% in 2015, respectively. See Figure 4.

Figure 4: Sustainable Investing – Interest and Adoption by U.S. Individual Investors

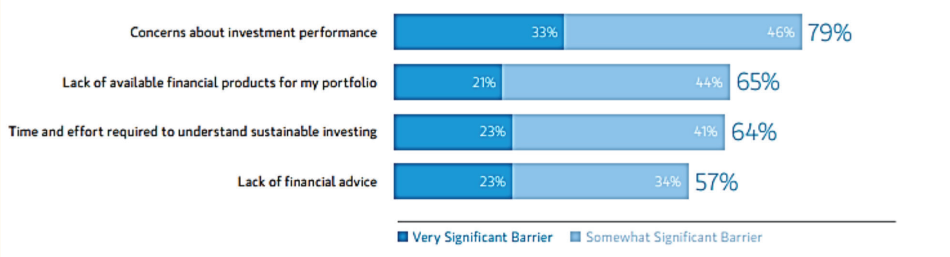


Source: Morgan Stanley 2019 Sustainable Signals

How they Perform

The 2019 Sustainable Signals report also highlighted that the most significant barrier for investors to consider including sustainable investing in their portfolio is the concerns about the investment performance, as shown in Figure 5.

Figure 5: How significant are the following barriers to including sustainable investing in your portfolio?



Source: Morgan Stanley 2019 Sustainable Signals

This is quite a common misconception as many people can be sceptical as they think that there is a financial trade-off and they have to sacrifice returns in order to invest sustainability. However, there is no evidence of any significant performance difference between sustainable and non-sustainable mutual funds.

In 2019, the Morgan Stanley Institute for Sustainable Investing published a white paper "Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds" which studied the performance of sustainable funds compared to traditional funds from 2004 to 2018. Over 10,000 funds were analysed and the results showed that there is no financial trade-off as sustainable funds provided returns in line with comparable traditional funds, while also offering a lower downside risk for investors.

The Morgan Stanley study also looked at the performance of sustainable funds during periods of extreme volatility. In years of turbulent markets, such as 2008, 2009, 2015 and 2018, the study found that sustainable funds "downside deviation was significantly smaller (20%) than traditional funds" i.e. sustainable funds were able to offer a layer of stability for investors looking for reduced volatility.

The world is changing, and the number of sustainable investment opportunities continues to increase, and studies have shown that investors can benefit just as much, if not more, from sustainable investing.

Investment Checklist

Investors have said that aligning their investments to their values has given them an added sense of purpose as they feel that they are more connected and making a positive impact to the world around them. Of course, the main goal of investing has not changed from increasing wealth but the satisfaction that accompanies it is an added benefit. If the concept of sustainable investing has piqued your interest, follow the steps below to begin your journey to aligning your wealth to your values.

1. **Throw out the stereotypes**
   There are many opinions about the type of people that practise sustainable investing. However, research has shown that contrary to popular opinion, the interest level between men and women in sustainable investing is similar and after adjusting for sociodemographic factors, age is nothing more than a number.

2. **Choose what's important to you**
   Similar to your investment objective or risk tolerance, your sustainable investment strategy is personal and unique. There is no single correct approach and it can evolve with time. To get started, decide on the issue that is important enough to you that you would like to start investing in.

3. **Do your research**
   It is always important to be informed when making any decisions that could affect your portfolio. There is an abundance of information out there about sustainable investing and the various methods one can use to achieve your investment strategies as well as information about different companies or funds that might already be aligned to your goal.

4. **Speak to your Financial Advisor**
   Sustainable investing is an amazing opportunity to place your money where your heart is but in reality, it will not necessarily be as easy and straightforward to select the appropriate assets to earn the level of returns that would be required to keep you on the path to successfully meet your financial goals. Speak to your financial advisor who can answer any questions and guide you to make the best decision.

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