



# The Fundamentals of Sustainable Investment

## 4IP Group Briefing Note No.1

### Introduction







More than a quarter of assets under management (AUM) worldwide are invested in “sustainable” strategies, and investors—both individual and institutional and at all wealth levels—are increasingly interested in integrating these strategies into their financial plans and investment portfolios.<sup>1</sup> Many asset managers and global financial institutions have embraced sustainable investment and are expanding their related services to grow their businesses. You— Family Office’s Wealth Managers and Investment Advisors —can do the same.


4IP Group as a sustainable investment thought leader (currently editing a Handbook on Impact Investing to be published by Palgrave-MacMillan) has developed guidelines, which answers fundamental questions about sustainable investment and offers practical information and guidance for incorporating it into your practice.

### In this BRIEF, we summarize:

- **why you should care about sustainable investment.**

Figure 1: Sustainable investment myths vs. Realities

MYTHS	REALITIES
 Sustainable investment is a fad; most investors are not interested.	 Sustainable investment is growing, and it's good for business.
 Sustainable investment hurts financial performance.	 Sustainable investment can enhance financial performance.
 The environment and society do not affect investors.	 Environmental and social phenomena affect investors and vice versa.

 **Sustainable investment is growing and it’s good for business (see Figure 1).** Sustainably invested assets grew an estimated 25% worldwide and 33% in the U.S. between 2014 and 2016.<sup>2</sup> Although large institutional investors drove much of this growth, individual investors are increasingly interested in integrating sustainable investment into their investment strategies.

A recent Morningstar survey found that nearly three-fourths of all investors are interested in sustainable investment and think that environmental, social, and governance (ESG) factors affect companies’ financial performance.<sup>3</sup> Men, in particular, are increasingly considering how they can use sustainable investment to replace their charitable giving.<sup>4</sup>

4IP Group as an experienced financial advisor along with industry leaders asserts that incorporating sustainable investment into advisory offerings can help your Family Office attract new clients, retain

<sup>1</sup> Global Sustainable Investment Alliance (GSIA) (2017). *2016 Global Sustainable Investment Review*.

<sup>2</sup> Global Sustainable Investment Alliance (GSIA) (2017). *2016 Global Sustainable Investment Review*.

<sup>3</sup> Schroders Global Investor Study 2016. *What investors think about responsible investing*. Available at: <http://www.schroders.com/en/sysglobalassets/digital/insights/pdfs/2016/sgis-2016/sgis-2016-esg-full-report-final.pdf>.

<sup>4</sup> Women’s Philanthropy Institute at the Indiana University Lilly Family School of Philanthropy (2018). *How Women and Men Approach Impact Investing*. May 2018.



existing clients (that is curb asset attrition), competitively position yourself relative to your peers, and provide clients with a more satisfying investment experience.<sup>5</sup>



**Sustainable investment can enhance financial performance (see figure 1).** Maybe you have heard that investing with consideration for sustainability factors means settling for below market returns. The truth is:

- Sustainable companies can be better at managing risk and have less systemic volatility than their conventional peers, making them better overall investments.<sup>6</sup>
- Sustainability factors impact value (companies with strong sustainability practices have lower business risks and lower capital costs), which encourages growth and enhances shareholder returns and can ultimately lead to higher valuations. Further, intangible assets have accounted for an increasing percentage of company market value over time.<sup>7</sup>
- Sustainable investments—large and small—that are focused in private equity, private debt, and real assets can achieve market-rate returns.<sup>8</sup>
- Sustainable investment indexes can perform as well or better than their conventional counterparts.<sup>9</sup>



**Environmental and social phenomena affect investors and vice versa (see figure 1).** You might dismiss sustainable investment as about making investors feel good vs. making any real difference. Evidence increasingly demonstrates the contrary. For example:

Researchers predict that investors could experience losses of up to 45% should policymakers and the private sector not work together to mitigate climate change and limit global warming and warn that social unrest caused by global youth unemployment could produce significant volatility in financial markets.<sup>10</sup>

Investors have helped to shape important environmental and social issues throughout history (e.g. their divestment from companies doing business in South Africa prompted legislation ending apartheid).<sup>11</sup>

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<sup>5</sup> Eccles, Robert and Mirtha Kastropeli. *The Investing Enlightenment: How Principle and Pragmatism Can Create Sustainable Value through ESG*. State Street Corporation. 2017.

<sup>6</sup> Holder, Michael (2018). "Evidence links ESG performance to better investments". GreenBiz. January 10, 2018. MSCI (2017). *Foundations of ESG Investing. Part 1: How ESG Affects Equity Valuation, Risk and Performance*. Giese, Linda-Eling Lee, Dimitris Melas, Zoltan Nagy, and Laura Nishikawa. November 2017.

<sup>7</sup> Skroupa, Christopher P. (2017). "How Intangible Assets Are Affecting Company Value in the Stock Market". Forbes.com. November 2017.

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<sup>8</sup> Global Impact Investment Network (2017). *Evidence on the Financial Performance of Impact Investments*. Abhilash Mudaliar and Rachel Bass. November 2017.

<sup>9</sup> LPL Financial. *Sustainable Investing: Strategic Discovery*. April 2017.

<sup>10</sup> Cambridge Institute for Sustainability Leadership (2015). *Unhedgeable risk: How climate change sentiment impacts investment*. Cambridge, UK: November 2015.

Cambridge Centre for Risk Studies. *Millennial Uprising Social Unrest Scenario*. Social Unrest: Stress Test Scenario. Cambridge Risk Framework

<sup>11</sup> US SIF Foundation (2016). *The Impact of Sustainable and Responsible Investment*. June 2016.