

# Sustainable investing: Learn how to navigate the ESG landscape

## What is sustainable investing?

Sustainable investing aims to identify companies that offer potential for strong financial returns while also demonstrating a commitment to sustainable business practices and positive impact. Sustainability is often considered through analysis of environmental, social, and governance (ESG) policies, practices, and performance.

Interest in this type of investing has been growing, given increased acceptance that ESG considerations can affect an investment’s performance and because of changing investor demographics and preferences.

Increasingly, investors are considering ESG risks and opportunities. Some are motivated to improve investment decisions, while others want to align their portfolios with their values and personal views.

Sustainable investing offers a range of different approaches and products. While there is no standard set of criteria for identifying ESG and sustainable investments, several common approaches are highlighted below:

- **Exclusionary** approaches focus on avoidance of certain companies or industries
- **Integrated** approaches seek to combine ESG data and analysis with other investment considerations
- **Inclusionary** approaches use ESG and sustainability analysis as a significant part of the investment process
- **Impact** approaches seek explicit goals for both financial return and social or environmental benefits

	Exclusionary	Integrated	Inclusionary	Impact
Investor intentions	“Avoid xyz”	“Sustainability is relevant”	“Sustainability is central”	“Impact is a primary goal”
Investment practice	Screening out	ESG consideration <small>SCREENING AND OPTIMIZING</small> <small>CORE RESEARCH INTEGRATION</small>	ESG focus <small>SUSTAINABILITY LEADERSHIP</small>	Impact analysis <small>SUSTAINABILITY SOLUTIONS</small>
Research intensity	Lower	→		Higher
Tracking error	Lower	→		Increased
Alpha and impact potential	Bounded	→		Open-ended

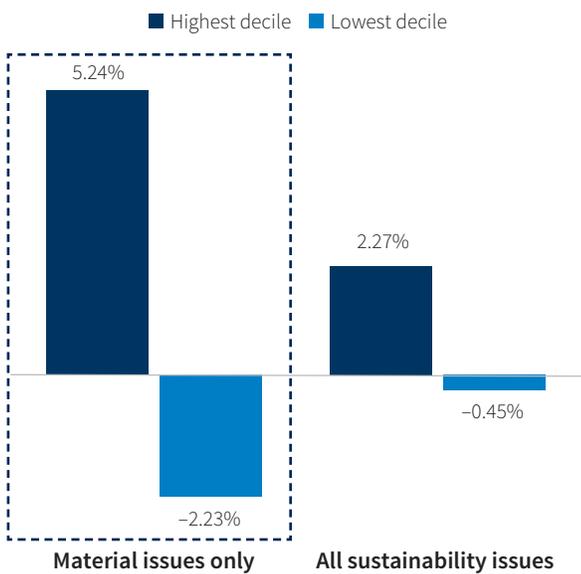
Source: Putnam. For illustrative purposes only.

### Potential benefits of sustainable investing

- There is growing evidence within the asset management industry and within academia that ESG factors affect corporate financial performance
- A highly regarded study led by George Serafeim of Harvard Business School found that stocks of companies with strongest performance on material (financially relevant) ESG issues outpaced those with poor ESG performance
- Research also indicates that understanding and quantifying the key ESG issues that a company faces can result in better risk management and more sustainable business practices
- ESG factors can therefore be an effective risk indicator, as historically, companies with poor ESG performance have been more prone to stock market underperformance, volatility, and bankruptcy risk

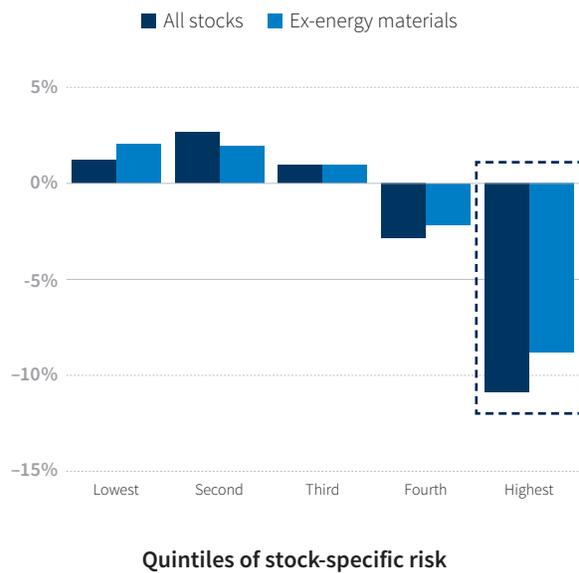
### Focus on material sustainability issues

Highest ESG scores on material issues correlate with relative return



### Risk mitigation

High stock-specific risk and weak ESG disclosure can be a warning sign



Source: Mozaffar Khan, George Serafeim, and Aaron Yoon (2016), "Corporate Sustainability: First Evidence on Materiality." Calculated using monthly calendar-time Fama-French regressions. Results shown are for value-weighted material and immaterial factors of firms scoring at the bottom and top deciles of the material index. The regressions are estimated from April 1993 to March 2014. Data set developed to measure firm investments on material sustainability issues by hand-mapping recently available industry-specific guidance on materiality from the Sustainability Accounting Standards Board (SASB) to MSCI KLD that has firm-level ratings on an array of sustainability issues. SASB considers material issues to be those with evidence of wide interest from a variety of user groups and evidence of financial impact. From the merged data, a materiality (immateriality) score for each firm-year that measures performance on material (immaterial) sustainability issues was calculated. Past performance is not a guarantee of future results.

Large-capitalization stocks in the worst quintile of the ESG score relative returns by quintile of arbitrage risk measured over one-year holding periods 2014 through mid-June 2017.

Source: Empirical Research Partners Analysts, June 2017. Most recent data available.

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## ESG preferences questionnaire

The purpose of this introductory questionnaire is for your financial advisor to learn about you to build a potential portfolio that aligns with your unique preferences concerning environmental, social, and governance (ESG) issues and investing. This questionnaire provides an opportunity to work closely with your financial advisor to identify key areas of importance and highlight potential investment solutions that incorporate relevant ESG issues.

### Your name(s):

### Summary of investment objectives (return, risk, income & liquidity needs, time horizon):

### 1. How long have you been interested in ESG/sustainable investing?

- Just starting
- Less than one year
- Several years
- I am not interested

### 2. Why are you interested in sustainable investing? (Select all that apply.)

- Potential to add to performance
- Potential to mitigate risk
- Care about environmental issues and want my capital aligned
- Care about social issues and want my capital aligned
- Other:

**3. Please rate the three broad categories below with a 1 (high importance), a 2 (medium importance), or a 3 (unimportant). Feel free to give the same ratings to different categories.**

- \_\_\_ Environmental (climate change; energy efficiency; pollution and waste)
- \_\_\_ Social (gender and diversity; privacy and data security; human rights; labor practices)
- \_\_\_ Governance (corporate behavior; board practices; accounting practices)

**4. Which of the following key sustainability issues are you looking to consider incorporating into your investment portfolio? (Select all that apply.)**

- Climate/Clean technology (decarbonization, renewable energy, energy storage)
- Environmental (sustainable agriculture, water quality and access, recycling)
- Governance and shareholder alignment (executive compensation, board diversity, accounting practices)
- Workers' rights (diversity, equal opportunity, inclusionary practices)
- Privacy and data security (data security, data privacy, data use, infrastructure security)
- Humanitarian and community investments (urban housing, medical, education)
- Other:

**5. Which approaches to ESG/sustainable investing do you want to apply in your portfolio? (Select all that apply.)**

- Strategies that seek to integrate ESG analysis within their investment process with a goal on understanding each company's sustainability strategy and how this is linked to financial performance
- Strategies that primarily utilize screens to "screen in" or select companies that score high in key ESG and sustainability concerns
- Strategies that exclusively apply screens to "screen out" companies that don't align with your key sustainability concerns
- Strategies that are focused on investing primarily in companies aligned to a specific sustainability theme

**6. Are there any specific activities that you would want to minimize (less than 10%) in your investment portfolio? (Select all that apply.)**

- Fossil fuels \_\_\_\_\_%
- Tobacco \_\_\_\_\_%
- Gambling \_\_\_\_\_%
- Prisons \_\_\_\_\_%
- Weapons \_\_\_\_\_%
- Alcohol \_\_\_\_\_%
- Other \_\_\_\_\_%

**7. What type of investment strategies are you looking to invest in? (Select all that apply.)**

- Strategies that seek to primarily provide similar risk/return exposure as their respective performance benchmarks
- Diversified strategies that can invest across several key ESG and sustainable themes
- Thematic strategies dedicated to specific ESG and sustainable themes (water, clean energy, diversity)

**8. Do you agree or disagree with the following statement?**

***I prefer to invest in strategies that integrate sustainability analysis as a key part of the investment process.***

- Strongly agree
- Agree
- Disagree
- Strongly disagree

**9. Which best describes your preferred way to engage in ESG/sustainable investing? (Rank in order with 1 being the highest.)**

- ESG issues can impact both the risk and financial performance of a company, and therefore, I prefer to invest in strategies that seek to integrate these factors when they analyze stocks
- I prefer to invest in strategies that identify growth opportunities among companies that are looking to provide solutions to key sustainability issues
- Strategies that screen out companies that do not align or that score poorly in key sustainability issues are important to me

**10. When considering among the different types of ESG strategies, do you assign a higher priority to returns or the specific ESG objective?**

- Return (includes both total and risk-adjusted)
- ESG objective
- Both are important

**11. How important is it to you that your investment manager looks to engage with company management teams and corporate boards to address key sustainability issues?**

- Very important
- Moderately important
- Little relevance
- No relevance

**12. What are some key questions about sustainable investing that you would like to discuss with your financial advisor?**



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