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RETIREMENT PLAN ADVISORS
THE FUTURE IS BETTER THAN YOU THINK

Investing for Impact

Avenues for aligning your investments with your personal beliefs

Many investors are looking to build a portfolio that reflects their socially responsible values, while giving them the potential for solid returns. That's where environmental, social, and governance (ESG) investing; socially responsible investing (SRI) investing; and impact investing may play a role.

In the past, some investors regarded these investment strategies as too restrictive. But over time, improved evaluative data and competitive returns made these strategies more mainstream. Even though SRI, ESG investing, and impact investing share many similarities, they differ in some fundamental ways. Read on to learn more.[1]

ESG INVESTING

ESG investing stands for environmental, social, and governance investing. The model assesses investments based on specific criteria, such as ethical business practices, environmental conservation, and local community impact. The popularity of ESG investing has grown: in the U.S. alone, there are more than 350 ESG mutual funds and exchange-traded funds (ETFs) available. Just a decade ago, there were only 100 ESG funds.[2,3,4,5]

SRI

SRI uses criteria from ESG investing to actively eliminate or select investments according to ethical guidelines. SRI investors may use ESG factors to apply negative or positive screens when choosing how to build their portfolio. For example, an investor may wish to allocate a portion of their portfolio to companies that contribute to charitable causes. In the U.S., more than $46.5 trillion are currently invested according to SRI strategies. This is an increase from the $12 trillion invested in SRIs by the end of 2017.[4,5,6]

IMPACT INVESTING

Also known as thematic investing, impact investing differs from the two above. The main goal of impact investing is to secure a positive outcome regardless of profit. For example, an impact investor may use ESG criteria to find and invest in a company dedicated to the development of a cure for cancer no matter the outcome of that investment.[5,6]

The biggest takeaway? There are plenty of choices to keep your investments aligned with your personal beliefs. No matter how you decide to structure your investments, don't forget it's always a smart move to speak with your financial professional before making changes.

Citations.

1. Vanguard.com, June 14, 2019

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2. Investing in mutual funds is subject to risk and potential loss of principal. There is no assurance or certainty that any investment or strategy will be successful in meeting its objectives. Investors should consider the investment objectives, risks, charges, and expenses of the fund carefully before investing. The prospectus contains this and other information about the funds. Contact the fund company directly or your financial professional to obtain a prospectus, which should be read carefully before investing or sending money.
3. Exchange-Traded Funds (ETFs) are subject to market and the risks of their underlying securities. Some ETFs may involve international risks, which include differences in financial reporting standards, currency exchange rates, political risk unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility. ETFs that focus on a small universe of securities may be subject to more market volatility as well as the specific risks that accompany the sector, region, or group. An ETF's trading price may be at a premium or discount to the net asset value of the underlying securities.
4. Morningstar.com, April 20, 2020
5. USSIF.org, April 15, 2020
6. Asset allocation is an approach to help manage investment risk. Asset allocation does not guarantee against investment loss.