# Sustainable investing

*84 % of millennials are interested in sustainable investing, which now may meet or exceed S&P performance, and the DOL allows plan managers to consider impact as well as performance in choosing funds, but, what is a sustainable investment?*

The moment for sustainable investing seems to be on us. New research shows that an index focused on companies with high environmental and social impact has outperformed the S&P 500 for over twenty-five years. And, some start-up financial platforms have even been created that focus solely on sustainable investing, like Swell www.swellinvesting.com, who is backed by Pacific Life. In addition to Pac Life, Black Rock and Goldman Sachs have also been making strides in this area. The Department of Labor ("DOL") recently ruled that plan managers can rely on elements of sustainability and similar factors in making investment decisions.

While green investing in the 1990s wasn't always a financially profitable endeavor, sustainable investing seems like it may have hit the mark. Now "profits with a purpose" may actually include profits. Part of that success may be how the concept of sustainable investing has changed. Sustainable investing currently includes healthcare innovation and clean technology as well as community (re)development. So while its predecessor of green investing focused on directing funds to companies that promised not to harm the environment, the new sustainable investing is broader. In fact, the sustainable, responsible, and impact investing (SRI) discipline incorporates the former green investing but also sometimes includes community impact as well other markers of social responsibility.

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More specifically, SRI is an investment strategy that seeks both financial return and social good – beyond just impact on the environment or a restriction on investing in companies that make certain products (like guns, alcohol, fast food, or pornography) – but looks for an effort to positively impact their community through investment, such as by investing in small businesses in low wealth neighborhoods.

It's estimated that currently there is $8.72 trillion in assets under management with sustainable directives. This is up significantly from the $6.57 trillion in 2014. This includes not only individuals, but universities and nonprofits as well. From an Financial Advisor ("FA") perspective, this means that an organization itself, through a board directive, may choose and investment strategy that asks for some or all of its portfolio to follow SRI guidelines, and it may also mean that employees of the organization may ask that their 401k or plan allow them to have options (mutual funds or similar) that follow those guidelines.

But beware: SRI may differ from company to company. What may be an impact investment to one board member may not be to another. And the investment products that may qualify as SRI go beyond public equity and can even include real estate and venture capital. For example, yhe issuance of green bonds (which fund a company or municipality's efforts to reduce their carbon footprint) has doubled since 2015 to $81 billion. However, exchange traded funds remain the majority of the focus of sustainable investing.

Additionally, some companies may fit within an investing guideline for SRI but not be known. It can be difficult to determine a company's environmental, social or governance ("ESG") policies if that company doesn't make them clear. Because of this, more companies may be incorporating ESG into their SEC reporting documents (like 10-Ks and earnings calls).

But given that the definition of SRI or sustainable investing is broad, investors and FAs should be thorough in reading investment information about a fund. Even though the DOL allows for ESG factors in sustainable investing, they left blank the definition of sustainability. If

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sustainable investment is a label companies or funds might want to have, as it is a demand area, then the temptation to apply this label too broadly could be present.  Additionally, true SRI should provide both social impact as well as financial return. Both elements need to be present for an investment or fund to qualify as an SRI.  That means there is multiple levels of review needed.

It could be helpful to sit down with clients to discuss the potential pitfalls of SRI – given the breadth of the definition – and whether their employees may be asking for additional investing options. Building a list of options, funds, and directives could be helpful. This could include targets for both the profit and the purpose side of SRI. Additionally, your clients may want some way to track performance of the impact they are seeking through the fund – so common financial reporting may need to be accompanied by reports on growth, environmental impact or other measures. Clients, and their employees want data and may want that more frequently.

And while sustainable investing, as green investing, has been around for decades, it is a growth area. According to reports, 84 % of millennials are interested in sustainable investing and are almost twice as likely to choose to invest because a fund or bond is sustainable.