Opinion: Sustainable investing helps your portfolio do well and do good

More investors count on companies to be accountable

Sustainable investing has gone mainstream.

Today the practice of seeking long-term competitive financial returns together with positive societal impact represents more than one out of every six dollars of U.S. assets under management, up from one in nine in 2012. This is real money.

Indeed, a new report from The Forum for Sustainable and Responsible Investment (US SIF) shows that since 2012, total U.S. assets under management using sustainable investing strategies increased 76% to $6.57 trillion.

What’s driving this growth? Investor demand. Clients, individuals and institutions alike, are increasingly asking for sustainable investing products across all asset classes. In fact, 80% of money managers in the US SIF report cited client demand as the primary motivation for incorporating environmental, social and governance criteria in their strategies.

Socially responsible investing: Risks and traps

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Socially responsible investing has become more popular, but investors often don’t understand the downside. Geneva Capital S.A.’s Scott Arnell explains the risks and pitfalls. Photo: Getty

While institutions may vary in their approaches to sustainable investing, the underlying trend is clear. A rapidly growing base of investors, financial professionals and institutions are deploying and managing capital with the dual objectives of earning returns and building a better world.

Investors might wish to screen out companies seen as harming society — those abetting
repressive or terrorist regimes or human trafficking, for example — or actively choose companies viewed as having positive impacts such as the advancement of clean, renewable energy or positive employment practices. Different investors have different objectives, but the cumulative effect is substantial.

This demand is only likely to accelerate. According to the Center on Wealth and Philanthropy at Boston College, younger generations in the U.S., including millennials, stand to inherit $36 trillion over the next 45 years. From what we know about them, millennials are far more likely to seek investments that combine solid financial returns with social and environmental benefits. The World Business Council for Sustainable Investment says sustainable investing opportunities generated by this transfer of wealth could total $10 trillion, or 4.5% of world GDP, by 2050.

Ultra-high-net-worth investors are also beginning to shift their investment mix, realizing that they can harmonize their philanthropic goals with their investment philosophy. Similarly, large public foundations, leading university endowments, state and local pensions, and a growing number of corporations are adjusting their strategies to avoid investments that could conflict with their missions or goals.

This trend is indicative of a broad shift in how people and institutions are investing their capital. Sustainable investing can be a smart way to invest. And today’s sustainable investors do not expect to compromise financial return for positive environmental and social impact.

Sustainability requires companies and investors to think long term. As noted in the US SIF report, sustainable investing promotes stronger corporate governance, builds long-term value for companies and their stakeholders, and fosters businesses and innovations that have positive benefits for society.

While great strides have been made in broadening the use of sustainable investing strategies, the work is far from finished. The ability to access and analyze high-quality non-financial data is invaluable for sustainable investing strategies to expand their reach. Companies and investors must continue to work together to increase transparency and disclosure that will enable the development of effective investing tools and solutions.

Making it easier and more appealing to access such investment opportunities helps to compound their impact. Companies that hold themselves to high ethical and environ-
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