Wealth Management
The Etergino Group

The ABCs of ESG Investing for Associations

Ann Marie Etergino, CIMA®
Managing Director – Financial Advisor, Senior Consulting Group, Institutional Consulting Group
Phone: (301) 907-2772 | annmarie.etergino@rbc.com | www.eterginogroup.com

Kristin Pfeiffer, MBA
Financial Advisor
Phone: (301) 907-2732 | kristin.pfeiffer@rbc.com | www.eterginogroup.com

The heartbreaking events of 2020 highlighted systemic issues locally and globally. We couldn't watch TV or read the news without seeing a headline on wildfires and climate change, the pandemic and varying access to medical care, or social unrest and racial inequality. In response, a growing number of individuals and organizations are looking to influence positive change in the world. Some are volunteering, some are turning to civic involvement, and an increasing number are aligning their values with their investments.

Mission-based organizations are particularly interested in how they can design their investment portfolio for both purpose and profit. As one of our nonprofit association clients explained, "the decision to invest our long-term funds to support the same goals as our grants and spending, without sacrificing returns, was a no-brainer."

Responsible investing is an umbrella term encompassing the three approaches used to deliberately incorporate environmental, social and governance (ESG) considerations into an investment portfolio, which are outlined below:

Support companies that perform well on environmental, social and governance metrics.

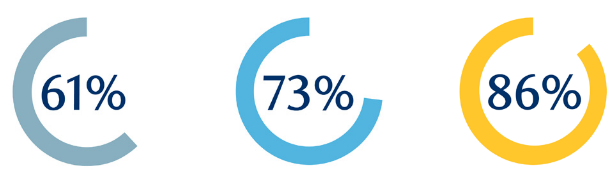
Support social or environmental issues with the expectation of measurable results.

Create or withdraw support for companies/sectors that do/don't meet personal values.

Responsible investing, often referred to as ESG investing, posits the idea that every company operates with some level of environmental, social or governance risk and opportunity. By analyzing ESG risks and identifying ESG leaders, investors can hedge these risk and improve the performance of their investment portfolios. As such, we have found that high ESG value creates financial value.

One misconception about ESG investing is that investors will sacrifice performance in order to integrate ESG factors into a portfolio. This myth continues to be debunked—in a recent study comparing ESG products to non-ESG products for 15 years between 2004 and 2018, the ESG products performed at least as well as traditional investment products across every asset class[1]. In addition, a quantitative study by RBC Global Asset Management in July 2019 showed that investments with high ESG ratings have outperformed and been less volatile historically.

Our clients, and investors overall, are pushing for ESG investing. In a 2021 RBC survey, over 61% of clients said they are interested in increasing their allocation to ESG investments, and 86% would like to learn more.

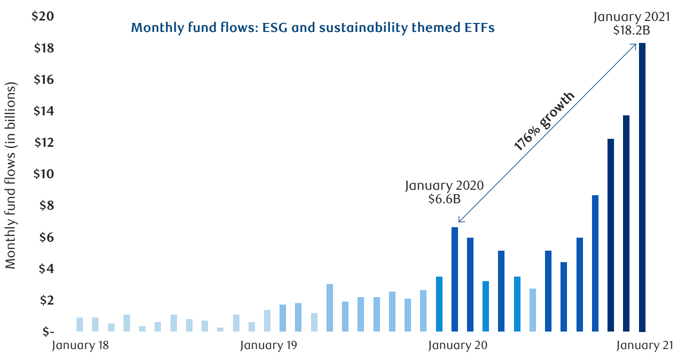


Of clients are interested in increasing their share of ESG investments

Of female clients believe ESG investing is the way of the future

Of clients say they would look to their advisor for information about ESG

This push is also evident in the inflows of capital into ESG investments—monthly flows into ESG-focused exchanged traded funds (ETFs) jumped from $0.9 billion in January 2018 to more than $18.2 billion in January 2021, and the growth is showing no signs of slowing. To put that in perspective, total flows into equity ETFs totaled $56.7 billion in January 2021; thus ESG-focused ETFs accounted for approximately 32% of flows into equity ETFs that month.



Source: Bloomberg ESG Dashboard; 01/31/2018 through 01/31/2021

As investors allocate record amounts into ESG-conscious funds, and more investment managers incorporate ESG factors into their investment strategies, it is important to understand the fundamentals of implementing an ESG portfolio.

The first step is to define your organization's goals, and select the ESG factor(s) that are aligned with your organization's goals. From sustainable growth to environmentally-conscious business practices to emphasis on diversity and inclusion, any or all of these ESG factors can be expressed in a customized portfolio based on the organization's mission and values.

These goals should be documented in the Investment Policy Statement. One of our health-focused association clients emphasizes how important it is for their members and their donors to know that the association do not invest in industries that negatively impact health.

The next step is to evaluate the investment options that are aligned with those selected ESG factors and also meet your organization's risk-adjusted returns target. There will likely be a list of choices, given the number and variety of ESG investment options are also on the rise—as of Q4 2020, there were 4,153 sustainable funds available globally, according to Morningstar Direct. A financial advisor can be a great resource during this evaluation process.

Once your organization has designed a portfolio to meet both its mission and risk-adjust return goals, the organization should seek the necessary approvals and documentation to implement the plan. Lastly, as is the case with all investments, the organization should review its portfolio periodically to ensure that the investments continue to achieve their purpose and performance objectives.

Our team's philosophy of "Connecting Wealth with Purpose" goes hand-in-hand with ESG investing. We take great pride in the long-standing relationships we have built with individuals and organizations to design customized investment portfolios with the aim of achieving maximum risk-adjusted returns while also choosing investments that are aligned with our clients' specific values and mission. This is the essence of ESG investing, as well as our client service model.

Our message to all organizations is that ESG investing aligns your portfolio with your unique goals and values, thereby furthering the organization's mission through investing while still positioning you to achieve your investment performance goals. Purpose and profit can go hand-in-hand, and result in a win-win for your organization.

If you would like to discuss ESG investing and implementation and/or your portfolio, please reach out to us at (301) 907-2772 or annmarie.etergino@rbc.com.

Ann Marie Etergino, CIMA®
Managing Director – Financial Advisor
Senior Consulting Group
Phone: (301) 907-2772
annmarie.etergino@rbc.com | www.eterginogroup.com

Kristin Pfeiffer, MBA
Financial Advisor
Phone: (301) 907-2732
kristin.pfeiffer@rbc.com | www.eterginogroup.com

1. Morgan Stanley. (2019). Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds.

 21-WG-01413 (06/21)