

Socially Responsible Investing: Not Just for Equities

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SEI Fixed Income Portfolio Management (FIPM) manages fixed-income strategies for SEI's Managed Account Solutions (MAS).

Snapshot

- › While there are a variety of ways investors can align their values with financial goals, interest in socially responsible investing has grown in recent years.
- › Investors often assume that the focus on impact must sacrifice financial return, but that isn't always the case.
- › Traditionally, investors have associated socially responsible investing with the equity markets. SEI Fixed Income Portfolio Management has been doing it for more than a decade on the fixed-income side.

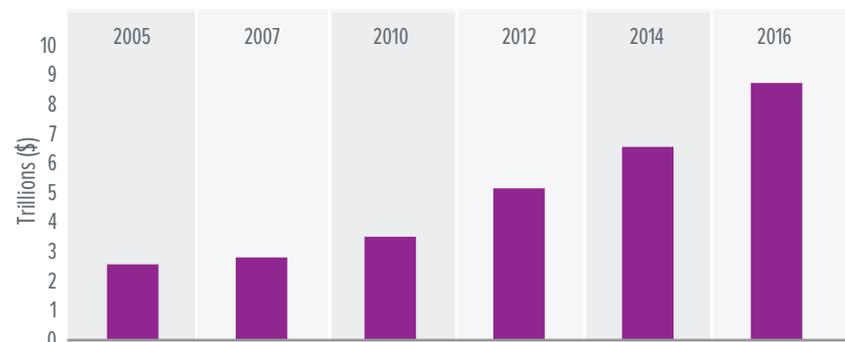
Social Investing: Using Your Money to Support Your Values

Investors are increasingly interested in socially-conscious investment strategies as they seek to address a host of worldwide challenges including environmental degradation, economic inequality and various business practices that run counter to social values. While socially-minded investment strategies have existed for decades and, arguably, centuries, the level of investor interest in them has grown in the past ten years, adding new and evolving processes and focuses.

Some investors have been inspired to help resolve issues in their own communities, while others have looked to large institutions like the United Nations' Sustainable Development Goals (SDG) as a guide.¹

While there are a variety of ways investors can align their values with financial goals, the main strategies include socially responsible investing (SRI), environmental, societal, governance (ESG) investing and impact investing. The U.S. SIF Foundation, an association of investors, philanthropists and others in the SRI ecosystem, published a report noting a 33% increase in sustainable investing to nearly \$9 trillion between 2014 and 2016 (Exhibit 1).²

Exhibit 1: SRI Assets in the United States



¹ The 17 SDGs, introduced in 2015, range from eliminating poverty to providing clean water and sanitation to building sustainable cities and communities.

² ussif.org/sribasics

Socially Responsible Investing

SRI has a long history in the U.S., dating back to the Quakers' refusal to participate in the slave trade. SRI excludes companies trafficking in areas misaligned with investor social values, leaving an investable universe that includes all other companies. Modern SRI strategies evolved in the 1960s and 1970s as investors increasingly focused on civil rights, gender equality and labor issues. One of the early successes of SRI was its role in the ending of apartheid in South Africa. Typical exclusions range from tobacco, alcohol and pornography to firearms and weapons manufacturers.

ESG Investing

The next iteration of socially-minded investing was ESG. While SRI successfully allowed investors to avoid potentially controversial industries and companies, investors sought a more active solution. ESG investing seeks more socially-conscious entities and management teams, providing societal benefit through the company's products, services or practices. ESG companies might produce clean and renewable energy, benefit the impoverished or employ a diverse management team or board of directors. Third-party data providers have enhanced the analytical tools available to ESG investors. For example, MSCI, Bloomberg and others provide quantitative ESG scores, evaluating companies based on information in public filings such as use of green facilities and board composition. In addition, rating agencies have introduced Green Bond Assessments, providing investors with a framework for evaluating specific bond issues.

Impact Investing

The newest addition to the socially-minded investing family is impact investing, the most aggressive strategy aimed at solving societal problems. Traditionally, investors have used a telescope to assess potential financial returns, while philanthropists employed a separate telescope to identify potential societal change. Impact investors use binoculars, simultaneously evaluating both outcomes.

While impact investing maintains ESG's focus on proactively identifying investments with positive societal impact, the commitment to transparently measuring social impact distinguishes impact investing. Impact investors want to shift the industry's mindset, recognizing that every investment has an impact. Whether it's buying equity in a tobacco company or lending money to a new wind farm, all investments make a statement to society and financial market participants about what a society values.

Traditional investors often assume that the focus on impact must sacrifice financial return, but that isn't always the case. Classic examples include well-known businesses which employ a "buy one, give one" model, donating a product to individuals in need for each consumer purchase. Similarly, high-profile impact investments in the public markets have included companies that manufacture electric cars and batteries designed to store clean energy.

Since the introduction of socially-minded investing, these strategies have grown meaningfully and appear poised to continue to grow in both assets and product offerings. According to a paper published by Ernst & Young, millennials are more than twice as likely to invest in investments targeting specific social and/or environmental outcomes. As this cohort, currently the largest generation in the U.S., reaches its peak earning age and inherits wealth from their baby-boomer parents, social investment opportunities will continue to grow and evolve.

SEI FIPM's Offering

Traditionally, investors have associated ESG investing with the equity markets. SEI Fixed Income Portfolio Management (FIPM) has been doing it for more than a decade on the fixed-income side.

SEI FIPM offers social screening in our fixed-income portfolios. The screening provides our clients with options for socially responsible investing, enabling them to align their convictions with the social, environmental and faith-based morals of the companies that make up their portfolios.

This added component of a portfolio allows investors of socially responsible investing to translate their principles into investment decisions, while indirectly promoting corporate responsibility among companies.

SEI FIPM also believes that a diversified portfolio is one of the keys to successful investing. As always, investors should carefully consider all investment options and select investments based on their individual needs and goals.

Important Information

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice and is intended for educational purposes only.

There are risks involved with investing, including loss of principal. Diversification may not protect against market risk. Bonds and bond funds will decrease in value as interest rates rise.

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