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What is Investing with Impact?
You can help create economic, social and environmental change through your investment portfolio without sacrificing financial performance.

Investing with Impact represents a vibrant and fast-growing approach to investing for individuals and institutions that want to have a positive impact on environmental and social issues.

Enthusiasm for this type of investing is growing. A recent Morgan Stanley study found that 85% of investors are interested in impact investing. Among Millennials, that number is even higher: 95% of next generation investors are interested in putting money into companies that are affecting social and environmental change.[1]

What's New About Investing with Impact?
Each of us has individual priorities when aligning investment decisions with larger societal or environmental concerns. Some wealth management firms use different definitions and structures to support these goals.

Morgan Stanley has designed a framework that includes four different approaches: Restriction Screening; Environment, Social and Governance (ESG) Integration; Thematic Exposure; and Impact Investing. This framework provides a range of options for integrating the potential for societal and environmental impact into your portfolio:

- **Restriction Screening:** The goal is to abstain from investing in companies and industries that go against the moral or ethical values of certain investors. For example, some investors want to avoid investing in tobacco, gambling or weapons companies.

- **Environment, Social and Governance (ESG) Integration:** The goal is to proactively invest in companies with sustainable corporate practices, including efficient natural resource use, efforts to reduce greenhouse gas emissions, & employee and customer treatment and governance.

- **Thematic Exposure:** The goal is to invest in companies with products and services targeting solutions to key sustainability goals such as alleviating poverty, community development, & climate solutions, among others

- **Impact Investing:** The goal is to affect specific social and/or environmental change at a direct, targeted level by making investments in private enterprises. There are periodic offerings for qualified investors.
- Each of these four approaches across the framework outlined above are differentiated by their process around shareholder engagement, as described below.

- **Shareholder Engagement:** The goal is to drive positive environmental, social, or governance-related change through active and continuous dialogue with corporates. Examples of engagement include proxy voting, dialogue with company executives, and participation in shareholder meetings.

- **No Need to Sacrifice Earnings:** Many people think that choosing investing with impact means accepting subpar investment earnings. However, Morgan Stanley's Institute for Sustainable Investing has found that the returns of sustainable mutual funds are no different than traditional mutual funds, while offering investors comparatively lower downside risk—as well as impact on a broad range of environmental, social and governance issues.[2] Looking at one specific thematic area, Morgan Stanley Research also found that the top third of companies in terms of gender diversity experienced 3% higher average relative returns than other companies in their region.[3]

The good news is that as more companies report on their environmental and social initiatives and as more data becomes available, the positive link between ESG factors and stock performance is getting easier to demonstrate.

A Win-Win for Investors

Companies that actively pursue strong sustainable corporate operations through their environmental, social and governance criteria can potentially mitigate their financial and social risks, and build trust among their shareholders, employees and customers. The result: A positive impact on companies' stability and earnings over time.

When you invest in companies that embrace sustainability in their corporate operations as well as the products and services that they offer, it can also help you with achieving your long term financial objectives. You can also feel good knowing you are using all your available resources to have a positive impact on causes you care about.

Footnotes:

[1] Sustainable Signals, Morgan Stanley Institute for Sustainable Investing, September 2019

[2] Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds, Morgan Stanley Institute for Sustainable Investing, August 2019

[3] Introducing HERS: Employing Diversity Pays Off, Morgan Stanley Research, August 2019

The returns on a portfolio consisting primarily of sustainable, ESG-aware, or impact investments may be lower or higher than a portfolio that is more diversified or where decisions are based solely on investment considerations. Because sustainability, ESG-aware, or impact criteria exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria.

Disclosures

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