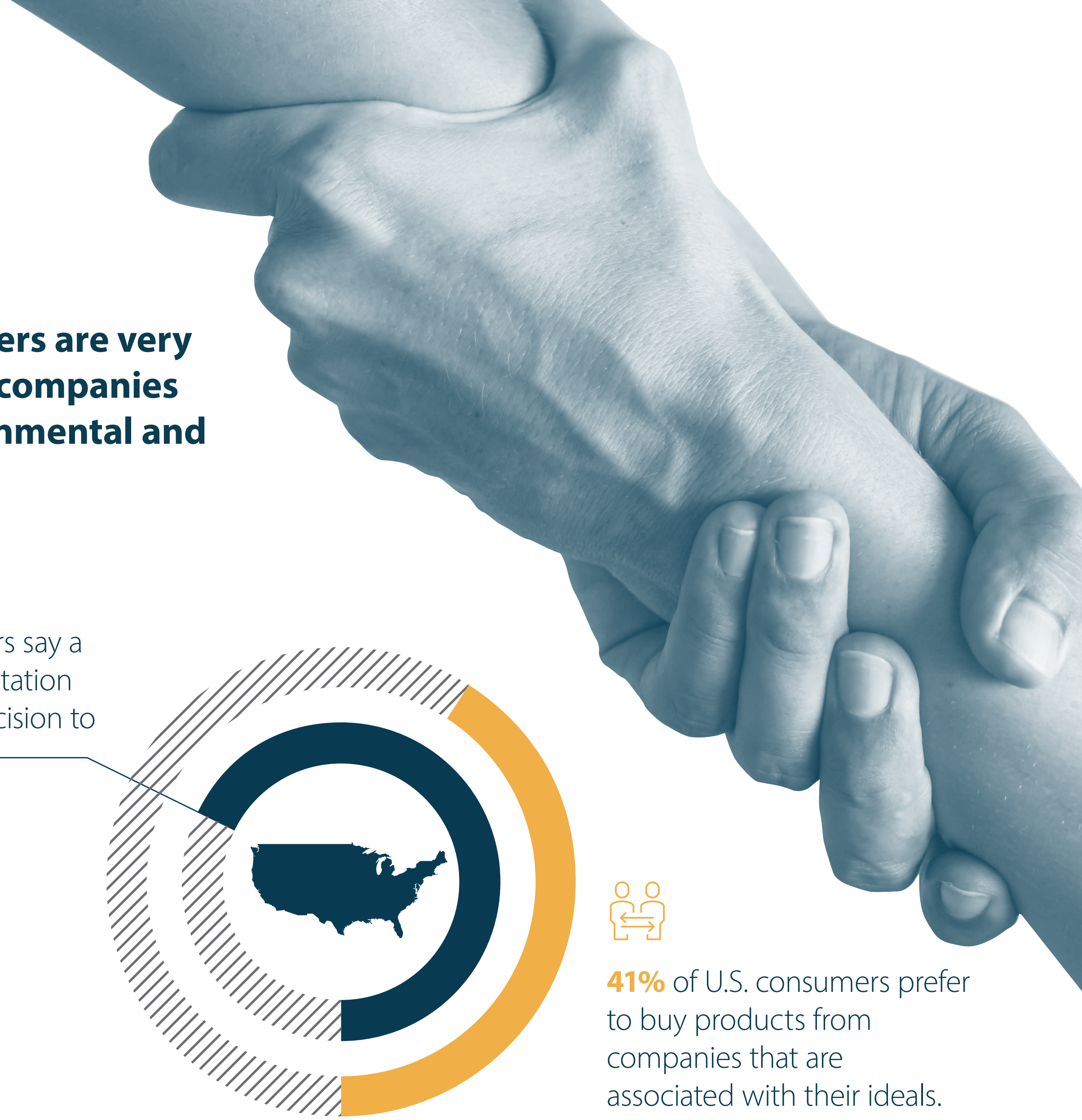
The Rise of the Values-Driven Investor

Advisor Advancement Institute

New York Life Investments



Today’s consumers are very aware of where companies stand on environmental and social issues.

68% of U.S. consumers say a company’s social reputation will influence their decision to buy its products.

Source: Forrester, 2020

41% of U.S. consumers prefer to buy products from companies that are associated with their ideals.

Source: Forrester, 2020

These “values-driven” consumers are likely to:

- Research a company’s social reputation
- Boycott brands that are not aligned with their beliefs
- Avoid certain products due to their environmental impact

But these concerns aren’t just influencing the things people buy—they’re also changing the way people invest.

Profiling the values-driven investor

"Values-driven" investors seek to align their portfolios with their personal beliefs.

This naturally drives them to consider non-financial ESG factors:

Environmental

Is this company investing in energy efficient solutions?

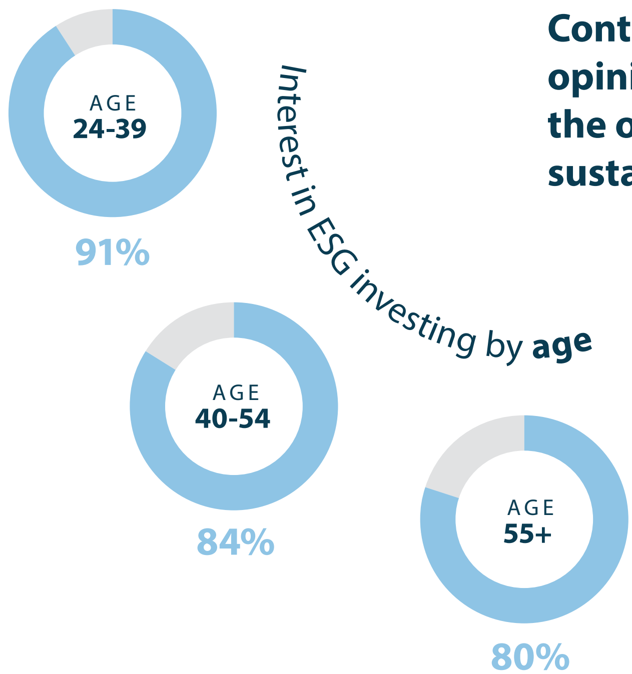
Social

Does this company ensure safe working conditions throughout its supply chain?

Governance

How are these company's executives being compensated?

Contrary to popular opinion, millennials aren't the only ones interested in sustainable investments.



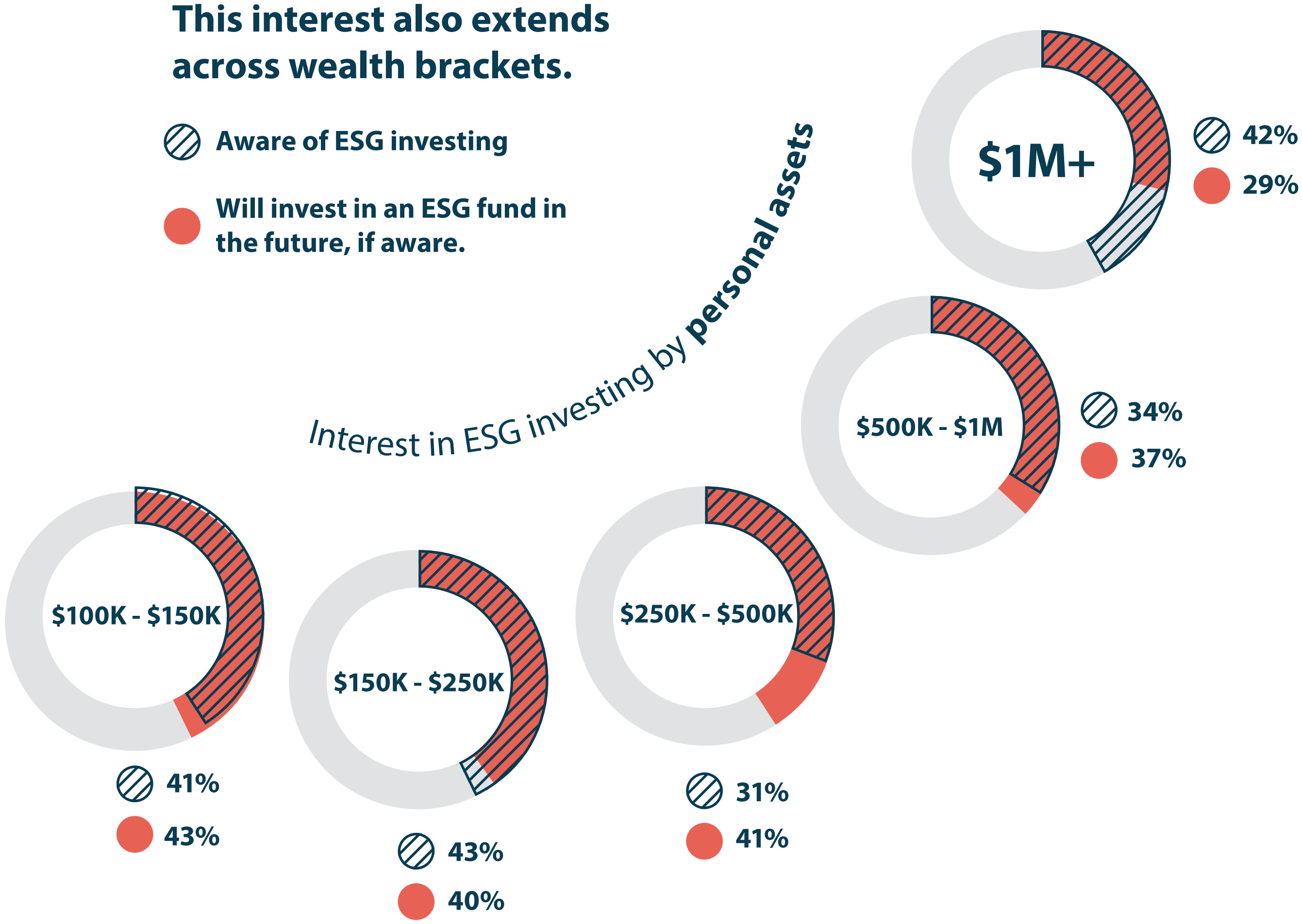
As younger investors begin to save for their future, ESG issues will be top of mind—but older investors show significant interest as well.

Source: New York Life Investments, 2019

This interest also extends across wealth brackets.

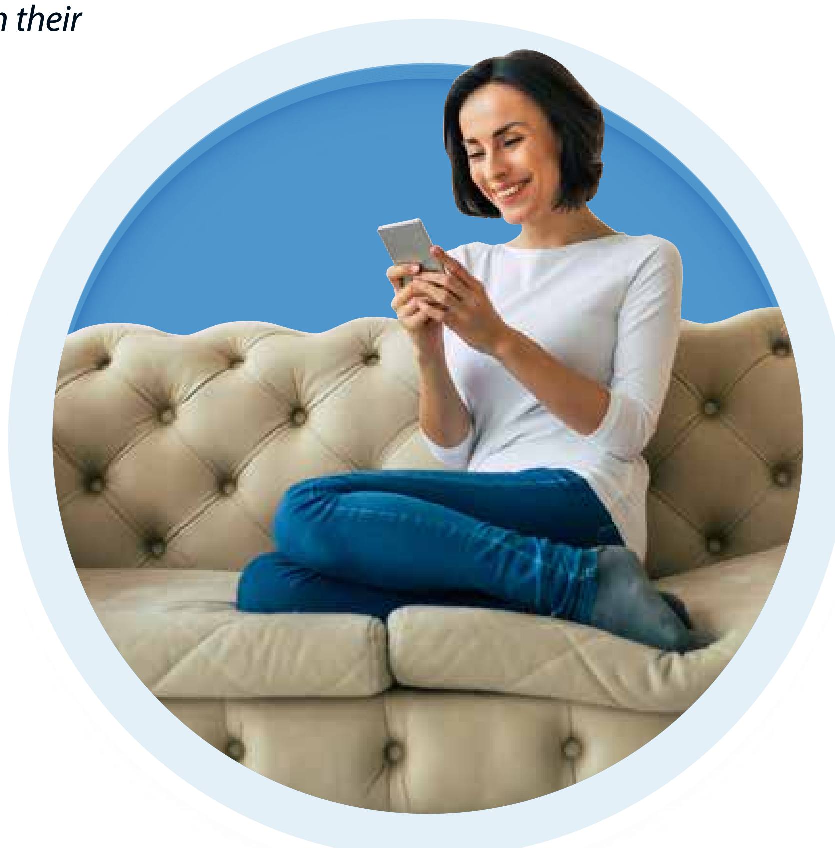
Aware of ESG investing

Will invest in an ESG fund in the future, if aware.



Awareness and acceptance of sustainable investing is roughly equal across wealth groups. More affluent households may prefer philanthropy to align their finances with their values.

Source: New York Life Investments, 2019



The typical values-driven investor is:

- ~**48.5** years old
- More likely to be a woman (56% chance)
- A holder of a highly diversified portfolio:
  - Stocks / bonds
  - Mutual funds / ETFs

Types of actions they take:

Will divest their portfolio of a company no longer aligned with their beliefs

Will change their purchase habits to reduce plastic consumption

The attitudes they hold:

"I think aligning my finances with my values is a positive thing."

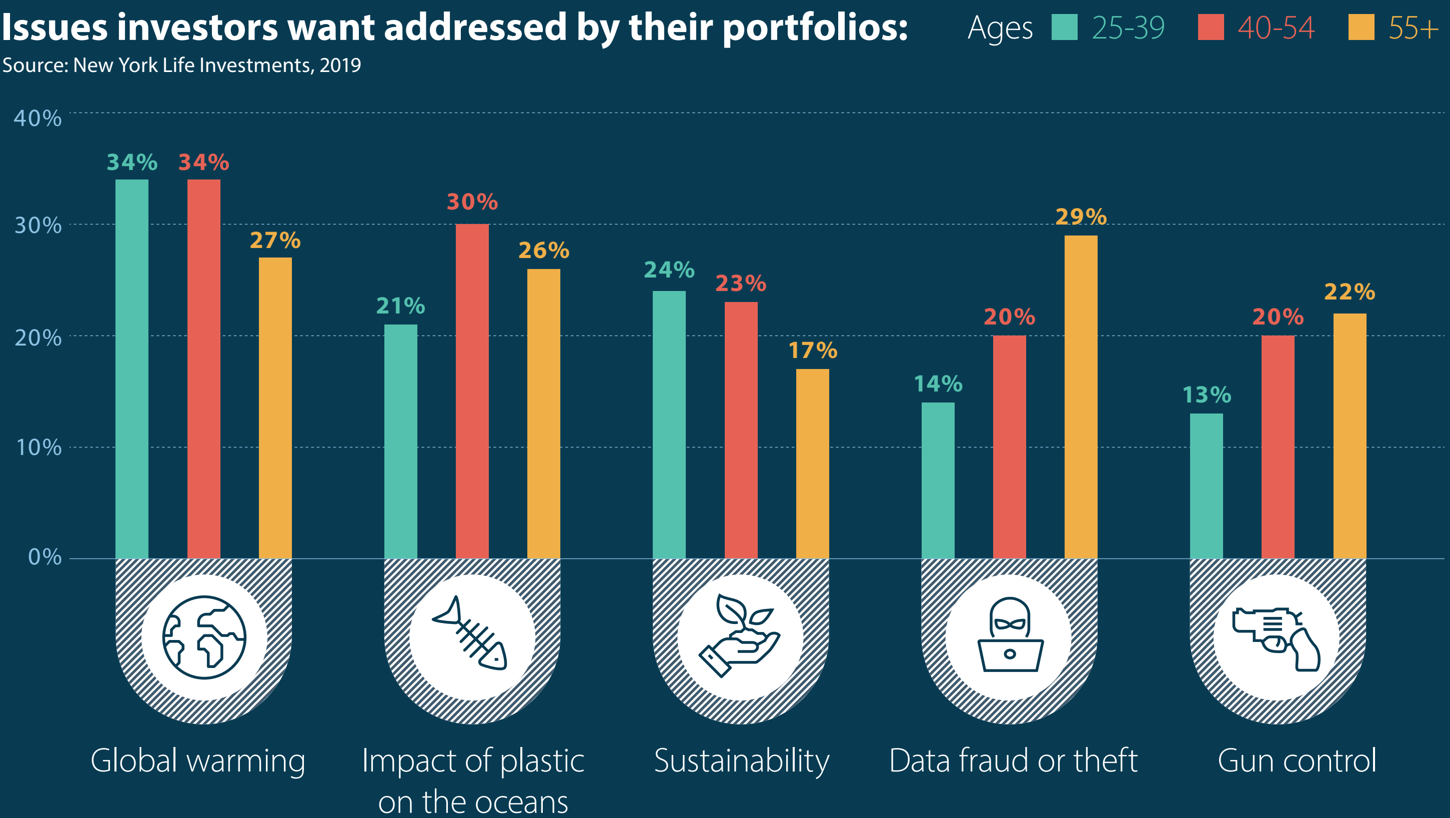
"I am aware of what's going on in the world and want to help better these conditions in my own small way."

What issues do values-driven investors care about?

Investors are prioritizing ESG issues differently depending on their age.

Issues investors want addressed by their portfolios:

Source: New York Life Investments, 2019



This finding is not surprising given that younger investors are more likely to experience the consequences of these longer-term issues.

Immediate concerns like data fraud or theft are the top priority for those 55 and older.

How can investors build a portfolio that addresses these unique concerns?

Two primary approaches to sustainable investment

ESG exclusionary investing

Common industry terms:

Also known as "socially responsible investing" or "negative screening"

Who it's for:

Investors who want their portfolio to be aligned with their beliefs and values.

"I want to avoid exposure to the tobacco industry because it harms the health of the global population."

ESG inclusionary investing

Common industry terms:

Also known as "best-in-class" or "positive screening"

Who it's for:

Investors who believe companies with strong sustainability practices can outperform over the long term.

"I want to invest in "best-in-class" companies that are committed to long-term sustainability regardless of industry."

ESG exclusionary

HOW IT WORKS

Investors reduce or avoid exposure to industries that go against their values.

Industries commonly screened out include:

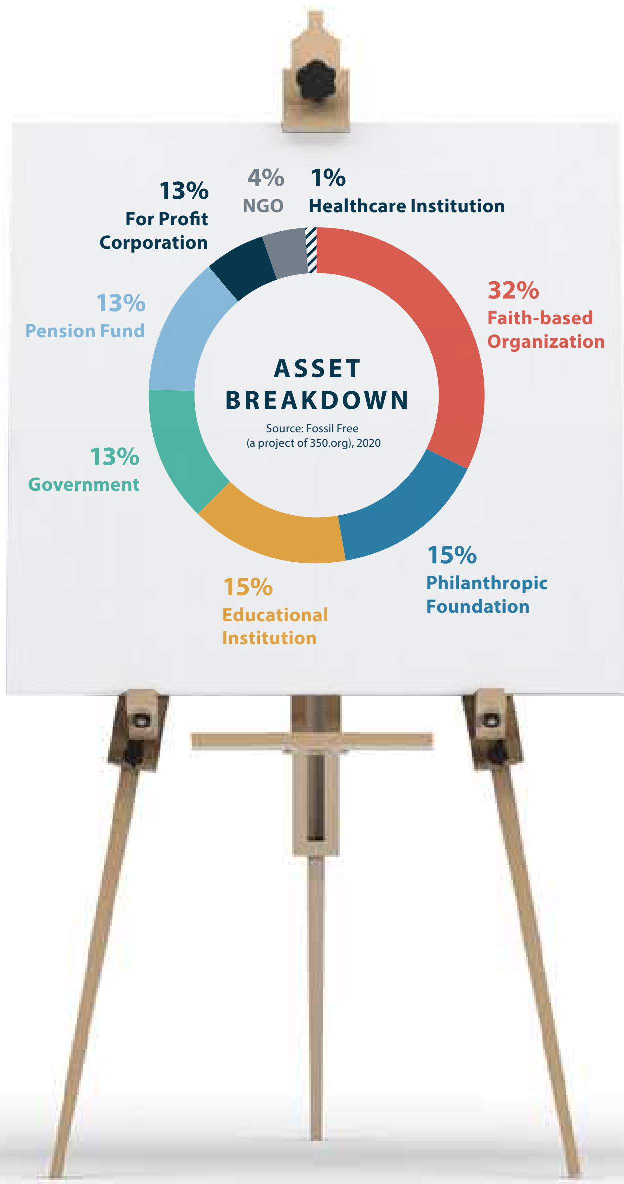
- Tobacco
- Gambling
- Alcohol
- Fossil fuels

Exclusionary approaches have been the most common, with the fossil fuel industry receiving much of the spotlight.

Institutional investors currently lead the way in fossil fuel *divestment.*

1,244 institutions representing **$14.6T** in assets have committed to a fossil fuel-free portfolio.

Source: Fossil Free (a project of 350.org), 2020



Fossil fuel divestment involves:

- Freezing new investments in the sector
- Gradually removing existing fossil fuel exposure

But the decision to divest from fossil fuels isn't just based on values. It also has financial motives.

The stranded assets dilemma

The Paris Agreement calls for global warming to be kept below 2°C this century.

Meeting this goal would result in:

29%

of oil reserves being left in the ground

Financial Times, 2020

▼ $360B

lost by the world's 13 largest oil companies

Financial Times, 2020

Under this scenario, investors who have exposure to these companies could experience losses in the future.

ESG inclusionary

HOW IT WORKS

Investors formally consider ESG factors to find the best companies in any given industry.

Enhanced with →

Traditional financial analysis

- Analyze the company's financial statements
- Study historical market trends
- Consider the direction of the broader economy

ESG factor analysis

- Examine the company's waste management practices
- Monitor the company's employee relations
- Grade the company's transparency & disclosure

To help asset managers identify industry leaders, index providers such as MSCI inc. publish ESG ratings for thousands of companies.

MSCI ESG ratings scale

Leader
(AAA, AA)
A company that leads its industry in sustainable practices

Average
(A, BBB, BB)
A company with a mixed ESG record when compared to its industry peers

Laggard
(B, CCC)
A company that is failing to manage its exposure to ESG risks

Can these ratings really improve the long-term performance of a portfolio?

In 2015, MSCI downgraded a U.S. bank due to its high number of customer complaints. A year later, the bank was involved in a damaging scandal:

What happened?

- 1.5M fraudulent accounts uncovered
- Nearly 3M clients affected

Outcome

- $185M fine from the Consumer Financial Protection Bureau
- Ongoing class action lawsuit
- Damage to brand reputation

In this case, considering the bank's social reputation may have given investors an advantage over those relying solely on traditional metrics.

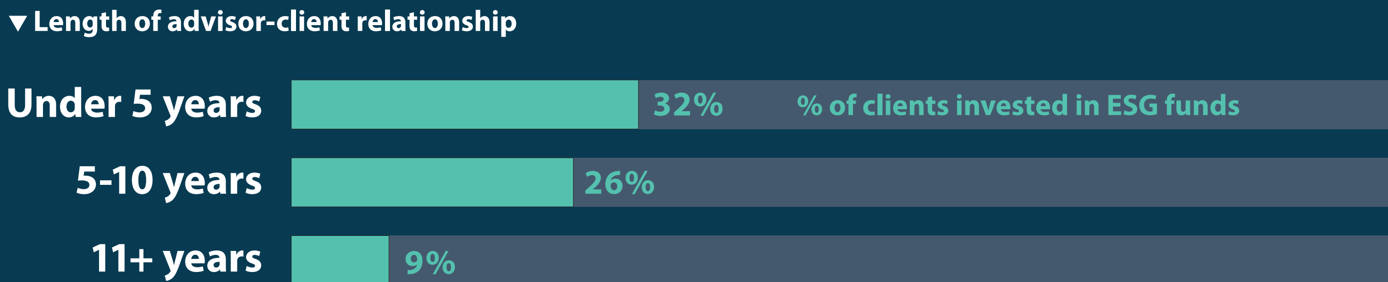
The importance of advisor-client relations

Despite widespread interest in values-based investing, most investors rely on their advisor to start the conversation.

When asked why they decided to invest in a sustainable fund, 58% stated it was because their financial advisor recommended it.

Source: New York Life Investments, 2019

Yet, the longer an advisor-client relationship carries on, the less likely it is that sustainable investing will be discussed:



Many advisors mistakenly assume that sustainable investments only appeal to younger clients.

Source: New York Life Investments, 2019

Regardless of a client's age, open communication about sustainable investment can prove immensely beneficial:

Benefits for advisors

- Gain a deeper understanding of a client's interests
- Increase client satisfaction

Benefits for clients

- Become more aware of the tools available to them
- Achieve a portfolio aligned with their personal beliefs and values

When advisors discuss sustainable strategies with their clients, **63%** proceed from ESG awareness to investment.

Source: New York Life Investments, 2019

With the help of advisors, investors can feel more confident that their portfolios are aligned with their personal values.

More than investing.
Invested.

morethaninvesting.com

Insights presented in this report are derived from a 2019 study conducted by New York Life Investments in partnership with RTi Research. Results based on survey questions asked of 594 investors, both men and women, with investable assets over $250k, ranging in age from 25-39; 40-54; and 55+.

1868252 RIS039-21 RIS86n-06/21