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The Principles for Responsible Investment

Why are they so important for our future?

The growing popularity of sustainable investing in the financial industry has been associated with the millennial investors' desire to proactively align every dollar spent with their values, such that *where* their money goes accounts for much more than *how much* it grows. However, many people are not familiar with the concept and practice of sustainable investing. To better our understanding, we will therefore dig into the definition, criteria, and benefits of this modern investing practice.

What defines a responsible investment ("RI")?

The most well-known and universal set of standards for RI is the UN Principles for Responsible Investment (PRI)[1], which has been launched in 2006. This initiative was designed to provide a framework to encourage and help financial companies to incorporate positive environmental and social practices in their business. Today, it has over 2,300 voluntary participation from roughly 50 different countries, and include asset managers, insurance companies, banks, financial service providers, and institutional investors. This type of selective funding is relevant today more than ever, with the impacts of extreme weather conditions such as the bush fires devastating Australia, plastic garbage piling up and killing aquatic creatures in our oceans, the #MeToo movement in workplaces and the George Floyd protests worldwide to combat racial discrimination. The public pressure from the socially conscious millennial generation is pushing companies to vow to clean up their environmental, social and governance ("ESG") acts, and as a result, a growing list

[1] https://www.unpri.org/

of investment firms have boosted their ESG fund offerings. However, whether you are a member of the millennial or the baby boomer demographic, there are so many reasons why you should, as an investor, pay attention to them. Here are three main reasons why sustainability should be part of your investment strategy.

Better Performance, Now and in the Future

According to BlackRock, the world's largest asset manager, a shift in investors' preference toward sustainability is underway. This means that the real intrinsic value of responsible investments has not been fully accounted yet in the current prices sold on the market, and therefore, we can profit from that difference by purchasing early on these investments. For instance, in the first half of 2020, research has shown a staggering 72% of sustainable equity funds ranking in the top halves of their categories and outperforming their conventional index-fund counterparts[2]. Moreover, another survey has unveiled that more than 50% of investors cited better performance as the top reason for investing sustainably. This strong performance will be amplified with Joe Biden's presidency, which will shift U.S. policies favorably toward impact investing. The best part is that investors can be assured that the corporations perceived as behaving more responsibly are more

[2] https://www.macleans.ca/economy/money-economy/millennials-socially-responsible-investing/

cautious in decision-making to avoid public relations problems, which, as a result, translates into holding a long-term stability-oriented view.

Accessible at all costs

With the ongoing pressure from millennials, in the first half of 2020, 23 new sustainable funds were launched. This translates into a variety of choices in market sizes and asset compositions, each focused on specific themes, to cover all personal values and beliefs. Moreover, with growing sustainable ETFs varieties, which are as diversified as mutual funds, and *robo-advisors*, an online financial advising technology, trading costs are lower than ever, and responsible investments are therefore accessible to any budget.

Resilience amid chaos

In a year filled with global uncertainties and disruptions like 2020, effective risk management becomes an essential part of building your portfolio. In fact, according to a recent survey, 70% of advisors consider superior risk management as the top reason to invest in responsible investments. This resilience is explained by two reasons.

First, well-managed companies tend to be less affected by disruptions and are more resilient through periods of turmoil because they generally have a higher job satisfaction of employees, maintain stronger customer relations, and show more transparency toward their shareholders. Therefore, when the pandemic hit in March, corporations with strongly ingrained work cultures adapted more quickly and withstood external pressures better than their counterparts with poorly maintained work culture, thanks to the mobilization of employees, customers, and stakeholders.

Second, sustainable companies are more resilient during turmoil, because they are often considered as alternative options to traditional solutions. For instance, during the pandemic, the conventional oil sector took a hit due to its disrupted supply chain and its stocks tumbled down. This has given the opportunity for clean energy, such as solar and wind power, to gain traction and gain competitivity in a very uncertain environment.