A glimpse at Responsible Investing:

By Jair Blackman & David Paul

From the 31st October, 2021 to the 13th November, 2021, the UK hosted the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow. COP26 brought parties together to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change. The major agreements reached by world leaders at COP26, surrounded ending and reversing deforestation, cutting methane emissions and the journey to net zero emissions.

Even with world leaders seeking to do their part on a macro level to preserve a better world for future generations, that may still not be enough. We can all play a small but effective part in this endeavour. As investors we can do this through 'responsible investing'.

In 1928, former World War 1 aviator Philip Carret launched the 'Fidelity Mutual Trust'. This was the first publicly offered, socially responsible investment fund. It was also the first large-scale example of "responsible investment", a term which refers to an approach to investment that explicitly acknowledges factors outside of financial returns.

Responsible investment considers environmental, social and governance factors, along with the long-term health and stability of the market as a whole. It caters for the fact that long-term sustainable returns depend on stable economic systems. Essentially, responsible investment aims to create long-term social, environmental and economic value, assigning weight to both financial and non-financial factors.

How do Responsible Investments look?

These days, responsible investment is much more developed. According to the University of Cambridge, assets under management by Principles of Responsible Investment signatories is now valued at more than US$59 trillion.

Over time, investors have responded to the numerous real-world issues through investments and that has led to different branches of responsible investment. They all aim to improve environmental, social or governance factors, but each branch offers tailored focus aimed at bringing specific solutions. Some types of responsible investment include Socially Responsible Investment (SRI), Best in Class Investment (ESG Investing), Ethical Investment, Sustainable Investment, ESG Integration, Thematic Investment, Impact Investing, and Shareholder Engagement.

ESG Investing

ESG investing maintains a primary focus on financial performance while identifying potential risks or opportunities beyond technical valuations. Due to its primary focus on financial performance, many ESG funds manage to perform well. In early 2021, there were at least 16 ESG funds that outperformed the S&P 500. Year to date, the S&P 500 is up 26.83% and below are some ESG funds' performances:

ESG Fund Name	Ticker	YTD Performance
Ariel Fund Investor Class	ARGFX	35.60%
iShares ESG Aware MSCI USA	ESGU	26.53%
Ariel Appreciation Fund	CAAPX	27.92%
Pax Small Cap Fund	PXSCX	34.72%

Socially Responsible Investing

Socially responsible investing (SRI) takes it a notch up from ESG by actively selecting or terminating investments according to specific ethical guidelines. The ethical guidelines can be based on religion, political beliefs or personal values. While ESG investing considers non-financial factors, SRI uses these factors to screen investments as acceptable or not. Some negative SRI screens include investments with involvement in alcohol, tobacco, gambling, terrorism affiliations, human rights violations or environmental damage. An investor utilizing SRI may choose to not invest in ETF's or stocks associated with some or all of those activities.

By contrast, SRI also promotes the selection of investments based on activities. Some positive SRI screens include investments with involvement in educational material, environmental technology or charitable production. Below are some socially responsible ETF's performances:

Socially Responsible ETF	Ticker	YTD Performance
Global X Conscious Companies	KRMA	26.88%
Global X S&P 500 Catholic Values	CATH	28.43%
Direxion Daily Global Clean Energy Bull 2X	KLNE	13.73%
First Trust NASDAQ Clean Edge Green Energy Index	QCLN	12.70%

Should I be involved in Responsible Investing?

Overall, the answer to that question lies within your goals as an investor. Responsible investing has grown as a trend due to its positive impact and potential to compete with traditional investment strategies. In theory, responsible investing can provide the solutions on a large-scale that are becoming necessary. In these times, its focus on sustainability may be crucial for our children and future generations to reap the same benefits that we have from earth.

If you are interested in responsible investing, feel free to reach out to a member of our team at salesitt@jmmb.com, to have further discussions about the options available to you.