



RESPONSIBLE INVESTING RISES UP

The past few months have brought forth an array of emotions and speculation about how life may be different post-COVID. On the business side, there has been much discussion around the viability of various industries and companies as the pandemic continues to permeate the world. Which ones will be able to sustain their operations and survive? Which businesses will weather the unexpected halt in production because they already practice good governance, have strong financial balance sheets or have put into practice thoughtful preparedness plans for a future unknown event? The pandemic is starting to bring to light how well some companies have managed and mitigated risks that are material to their business, and we are seeing the effect of these decisions on all stakeholders.

Labor rights is one area receiving special attention right now, as the safety of workers and lack of paid sick leave have come into question for many companies. This example highlights both the human rights issue as well as the economic disruption to the supply chain from these temporary shutdowns. A desire to invest in companies that are thinking with a more panoramic view in the best interest of all stakeholders, while also focusing on profitability, has been gaining traction over the years. This defines ESG investing.

While there are many terms used to broadly describe ESG (including terms such as responsible/mission-based/sustainable, among others), there is no single approach. One broad description is: The practice of incorporating Environmental, Social and Governance issues into an investor's goals and objectives, alongside traditional financial return expectations. If you've never followed ESG or "responsible" investing, now might be the time to start paying closer attention.

John Streur, president and chief executive of Calvert Investments, recently declared that even though "no company really had criteria for managing during a pandemic, it's clear that companies that have the criteria for ESG reacted well during this downturn." ⁱ

During Q1 2020, as mutual funds overall saw outflows of \$384.7 billion, mutual funds that broadly support sustainability experienced inflows of \$45.6 billion. Global sustainable fund assets ended the quarter at \$841 billion, down -12% from their all time high of \$960 billion at the end of 2019. This contrasts with assets in the global fund universe, which took a greater hit, declining by -18% over that time period. ⁱⁱ

Related to investment performance, there is some evidence that sustainable funds may provide downside protection during the market downturn. During the first quarter of 2020, when the S&P 500 Index fell -23.6%, global large cap stock funds with the highest Morningstar ESG ratings had an average decline of -17.7%, while funds in the same category but with the lowest ESG ratings declined -26.6%. ⁱⁱⁱ While most ESG or sustainable funds have minimal exposure to fossil fuel industries which have performed quite poorly this year, this sector is less than 3.5% of the broad index and does not fully explain the difference in returns. Another recent example was seen during the fourth quarter of 2018. When the S&P 500 Index was down -13.5%, largely on China trade war news, the average sustainable U.S. Equity Fund tracked by Morningstar beat the index by a full percentage point. ^{iv}

We believe a focus on environmental, social, and governance factors by management of companies is pure and simple best practice and offers the kind of risk mitigation that leads to outperformance. And as more investment strategies focused on ESG factors build track records of excellence, the stigma that there is a tradeoff in returns will fade to a distant memory.

Ropes Wealth Advisors is committed to helping clients who are interested in responsible investing. To discuss this opportunity or to simply learn more about ESG, please reach out to your Portfolio Manager for further information.

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- i <https://www.investmentnews.com/as-pandemic-rages-on-esg-funds-shine-brightly-191673>
 - ii <https://www.investmentnews.com/esg-funds-saw-inflows-in-first-quarter-192648>
 - iii <https://www.investmentnews.com/as-pandemic-rages-on-esg-funds-shine-brightly-191673>
 - iv <https://www.investmentnews.com/as-pandemic-rages-on-esg-funds-shine-brightly-191673>

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