

*Please note: This is a transcription so there may be slight grammatical errors.*

Kevin Yoshida:

You've almost certainly heard the buzzwords, environmental, social, and governance, or ESG investing. And you've probably wondered, "How does this relate to my nonprofit's mission and values?" Today, we'll explore some key concepts together. The term ESG investing was coined in 2005, but value space investing has been around for decades, if not longer. At its core, environmental, social, and governance criteria offer a way for endowments and foundations to better align their portfolios with their organizational mission and values. This type of mission-led investing helps demonstrate an added level of commitment to your stakeholders, that your organization is really willing to walk the talk when it comes to your investment practices.

So has the industry embraced ESG investing? According to CAPTRUST's 2021 Endowment and Foundation Survey, 38% of endowments and foundations already incorporate ESG values into their investment programs. This is up 27% year over year and was the second year in a row that we saw an increase. Endowments and foundation should start their valuation of ESG investing by looking inward and understanding what their organizational values are. From there, it's important to have an earnest conversation about return expectations. Once decision-makers understand their non-profit's own values and priorities, they can make a clear-eyed evaluation of potential investment strategies and articulate how each strategy either does or doesn't meet their organization's needs.

It may seem daunting to make this type of change to your organization's investment philosophy, but one simple way of doing this is by excluding stocks that go against your mission. About three quarters of ESG adopters focus on excluding investments that don't align with their organization's values, such as weapons manufacturing or for-profit prisons. Other organizations focus on investments promoting specific values they support, like gender diversity or sustainability. For nonprofits with broader missions, such as community foundations, specific priorities may be difficult to identify. One solution for these groups is to utilize ESG strategies that prioritize investing in companies which maintain responsible business practices. About a quarter of ESG adopters use this positive identification approach.

With careful portfolio construction and monitoring, which often requires the assistance of an advisor, the long-term returns of an ESG strategy may be just as successful as traditional investing. While the range of off-the-shelf ESG and values-aligned strategies exist, the industry's recent growth allows endowments and foundations to develop customized strategies. Moving forward, we expect the amount of publicly available information about company's business practices, environmental impact, and social responsibility to increase. Not only will this help investors make more informed decisions, but it will also allow for better reporting about how an endowment or foundation's portfolio compares to market benchmarks and industry peers along ESG metrics. We also expect investment managers to increase their use of non-financial data to evaluate prospective investments.

For example, carbon admissions or board diversity. These additional data points will help better align nonprofits' investments with their missions, but it may require asset managers to increase the depth and expertise of their analyst teams. What ESG looks like and what investment options are available is far different today than even five years ago. There's never been a better opportunity for organizations to evaluate whether mission-aligned investing makes sense for their portfolio. Going through this process doesn't commit an organization to invest in ESG strategies, but it will provide clarity for stakeholders that you are taking a thoughtful and deliberate approach. If you're looking for help evaluating ESG investing for your endowment or foundation, then call CAPTRUST. And be sure to review our latest Endowment and Foundation Annual Survey at [captrust.com](http://captrust.com). We pride ourselves on being leaders in this space, and we're here to help.

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