Sustainable and Impact Investing

What Does it Mean?

LOUISA IVES, *Senior Vice President & Head of Manager Research*

The notion of sustainable or impact investing has existed for decades, but only in recent years has it become more mainstream. Sustainable investing was once considered "concessionary capital," often associated with sacrificing investment returns in order to fulfill philanthropic goals and ideals. The sustainable investing space has developed significantly over the years, and today it offers investors a broad array of options regarding investment objectives and impact goals. When investing in the sustainable space, Chilton Trust seeks ***positive environmental or societal impact while generating competitive financial rates of return*.**

The terms "sustainable," "environmental-social governance" ("ESG"), "impact," "values- based", and "socially -responsible investing" ("SRI") are but some of the nomenclature used to describe various approaches to investing in the sustainability space. It can be a confusing, acronym-laden topic, but it is one which is quickly growing in significance and relevance. Broadly speaking, sustainable investing tenets include long-term focused management plans and actions, ethical and efficient business practices, and strong consideration of ESG issues. In fact, sustainable business practices are now often considered an imperative component to effective risk control and strong long-term performance. Companies that choose not to embrace such practices may do so at their own peril (recent examples include the BP oil spill and Volkswagen emissions scandal). By embracing sustainable investing practices, corporations are responding to both consumer and shareholder demands: in 2016, 82% of the S&P 500 companies published sustainability reports, up from just 20% in 2011.[1]

To help our clients understand and approach sustainable investing, Chilton Trust has developed a framework that distills the investment landscape into three general buckets: (1) Values-Alignment, (2) ESG Integration and (3) Impact Investing.

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[1]Governance & Accountability Institute, Inc, *FLASH REPORT: Eighty Two Percent of the S&P 500 Index Companies Published Corporate Sustainability Reports in 2016*. June 6, 2017

1) Values-Alignment

At its most basic level, Values-Alignment investing seeks to *exclude* companies or industries from a portfolio based on a client's personal goals or ideals. Commonly avoided industries include weapons, tobacco, fossil fuels, and gambling. Target investments in this space do not actively seek environmental or social impact, but rather simply avoid "objectionable" investments, based on a particular set of values.

2) ESG Integration

The next level of sustainable investing shifts from an exclusionary emphasis to an inclusionary one: rather than *exclude* problematic products or services, investors seek *to include* companies that score well on environmental, social or governance considerations. Environmental, social and governance analysis touches on a broad array of company dynamics, from energy efficiency to supply chain dynamics to corporate governance. In the exhibit are some general, but certainly not all-inclusive, considerations analyzed within each of the ESG sleeves.

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3) Impact Investing

Impact investing further builds on the framework of Values-Alignment investing and ESG Integration, as investors seek companies, management teams, and technologies that directly address global sustainability issues. Portfolios often target solutions-based companies addressing specific environmental or societal issues. Thematic investing is common; many impact managers look for companies that address and enhance resource optimization across several industries including energy, water, food and agriculture, and waste management. Historically, impact investing fell primarily to the private investment space, but more recently it includes strong public equity investment mandates as well.

Environmental Analysis

- Energy Efficiency
- Water usage/ efficiency/utilization
- Pollution/emissions controls
- Energy alternatives

Social Analysis

- Commitment to human rights issues
- Global supply chain
- Worker safety/ labor rights
- Product Integrity
- Community Values Awareness

Governance Analysis

- Corporate structure
- Accounting, transparency
- Executive compensation
- Board diversity/gender equality
- Accountability at the board and executive levels

Sustainable investing means different things to different people, as individuals have their own set of values and financial goals. As sustainable investing grows in popularity, more and more funds continue to be launched, resulting in a dizzying array of investment choices that now fall under the sustainable investing umbrella. According to the Forum for Sustainable and Responsible Investment, U.S.-domiciled sustainable investing assets grew over 33% from 2014 to 2016 alone, to $8.72 trillion, and now accounts for one in five dollars of professionally managed assets.[2] Morningstar alone carries over 225 funds in its database with a sustainable mandate.

At Chilton Trust, we apply a rigorous, educated and thoughtful approach to selecting high-quality investment managers that can fulfill the three mandates discussed above. The managers we recommend in the sustainable space have undergone the same extensive and uncompromising due diligence process that we perform on each manager on our platform. We work with only those we deem are best-in-class third party managers, with whom we partner to implement our bespoke portfolios to match the specific needs and goals of each client.

If you have questions or would like further information, please reach out to us.

[2]The Forum for Sustainable and Responsible Investment, *SRI Basics.*

Chilton Trust Company

New York	Palm Beach*	Stamford
300 Park Avenue	396 Royal Palm Way	1290 East Main Street
New York, NY 10022	Palm Beach, FL 33480	Stamford, CT 06902
Phone: (646) 443-7733	Phone: (561) 598-6330	Phone:(203) 352-4000

Louisa Ives is Senior Vice President, Head of Manager Research. Ms. Ives is responsible for external manager selection and due diligence for Chilton clients. Prior to joining Chilton Trust, Ms. Ives was a Managing Director at Chilton Investment Company, where she was a research analyst covering the financial services sector. She also served on the company's Board of Directors. Prior to joining Chilton, she worked as a Senior Associate at Coopers & Lybrand Consulting Group, reporting directly to the CEO, and as an Assistant Vice President at Chemical Bank in their Middle Market Lending Group. Ms. Ives graduated cum laude from St. Lawrence University with a B.A. in English Literature and earned an M.B.A from Harvard Business School. Ms. Ives serves on the boards of the North Haven, ME Casino (Yacht Club), The Project Y Theatre Company, and on the Investment Committee of Vinalhaven, ME Land Trust.

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