BERNSTEIN

GETTING STARTED:

FIVE QUESTIONS TO CONSIDER WHEN IMPLEMENTING RESPONSIBLE INVESTING IN YOUR PORTFOLIO

Whether you are an individual investor, the manager of an endowment, or a member of an investment committee seeking to steward the resources of a nonprofit organization, there are several fundamental questions and issues to consider as you look to implement responsible investing in your portfolio.
Here are some prompts to get you started:

1. WHAT ARE YOUR PRIORITIES FOR RESPONSIBLE INVESTING?

- What environmental, social, or governance issues are important to you, or to the organization whose resources you manage?
- What kind of impact do you want to have and why?
- Which specific issues or considerations do you want to incorporate into your investment policy or wealth management plan? Will this be done as a complement to philanthropy, grant making, and civic engagement or undertaken on a stand-alone basis?

2. HOW DO YOU WANT TO REFLECT YOUR VALUES, OR YOUR ORGANIZATION'S MISSION, IN THE INVESTMENT PORTFOLIO?

- There are multiple approaches to constructing responsible portfolios, ranging from simply evaluating the material environmental, social, and governance (ESG) aspects as part of fundamental analysis, to negative screening and impact investing.
- Do you want to minimize risk, avoid exposure to specific activities, or invest in companies developing solutions to important societal issues?
- Your answers to these questions will help your advisor guide you to the solutions that are most suitable across different asset classes.

3. ARE YOU INVESTED WITH PORTFOLIO MANAGERS WHO ACTIVELY ENGAGE WITH COMPANIES ON ESG ISSUES?

- Active ownership, which includes actively voting proxies, introducing shareholder resolutions and raising environmental, social, and governance issues with management teams and boards, is an important tool for influencing corporate behavior.
- Raising environmental, social, and governance issues directly with company management makes sense because companies with poor ESG behaviors tend to be more volatile over time.
- Active managers also have the ultimate tool: selling a stock whose ESG indicators are not meeting expectations (unlike index funds or ETFs that must hold a stock in a relevant index regardless of its ESG profile).

4. HOW WILL YOU MEASURE THE DIMENSION OF RESPONSIBILITY?

- Unfortunately, there are no universally accepted metrics to evaluate the dimension of responsibility.
- However, investors should still expect disclosure and transparency from managers, and reporting in a way that is understandable.
- Some managers adopt customized metrics aligned with the investment strategy of the portfolio. For example, measuring carbon intensity for portfolios that seek to benefit the environment.

5. DOES RESPONSIBLE INVESTING MEAN ACCEPTING LOWER RETURN POTENTIAL?

- Whether investing responsibly detracts from returns is a long-standing investment question.
- Savvy investors now believe that both society and investors' portfolios stand to gain from the rise of responsible investing—provided it's carefully implemented.
- Research and active management are the keys to achieving the optimal balance.

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