



The Rise of the  
**Values-Driven  
Investor**



INVESTMENTS

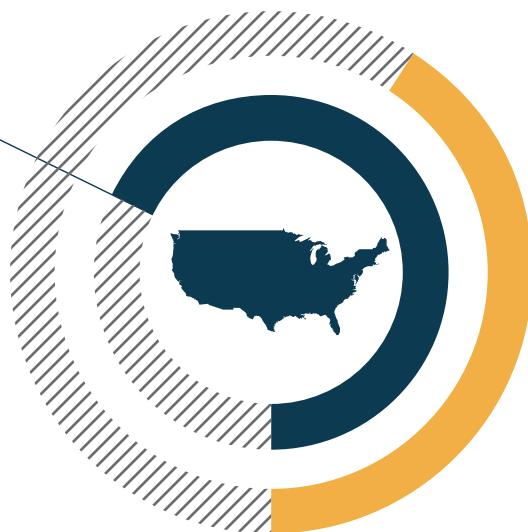


**Today's consumers are very aware of where companies stand on environmental and social issues.**



**68%** of U.S. consumers say a company's social reputation will influence their decision to buy its products.

Source: Forrester, 2020



**41%** of U.S. consumers prefer to buy products from companies that are associated with their ideals.

Source: Forrester, 2020

**These “values-driven” consumers are likely to:**

Research a company's social reputation



Avoid certain products due to their environmental impact



Boycott brands that are not aligned with their beliefs



**But these concerns aren't just influencing the things people buy—they're also changing the way people invest.**

# Profiling the values-driven investor

“Values-driven” investors seek to align their portfolios with their personal beliefs.

This naturally drives them to consider non-financial ESG factors:



## Environmental

Is this company investing in energy efficient solutions?



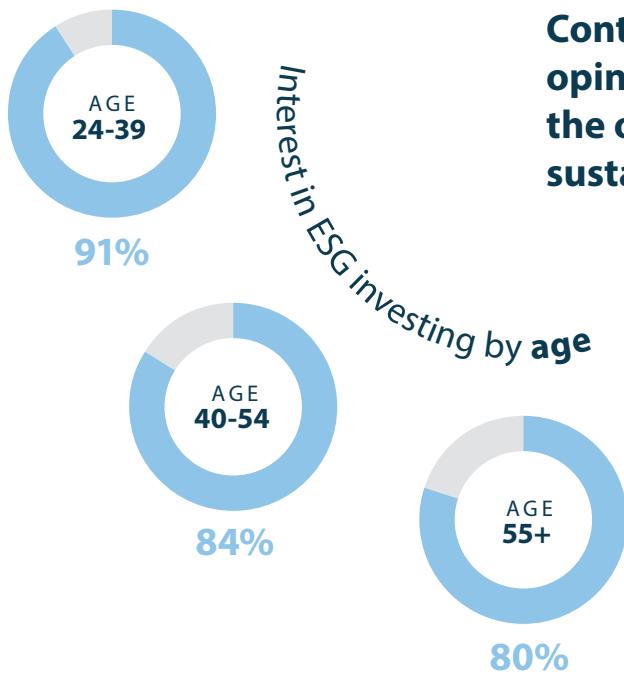
## Social

Does this company ensure safe working conditions throughout its supply chain?



## Governance

How are these company's executives being compensated?



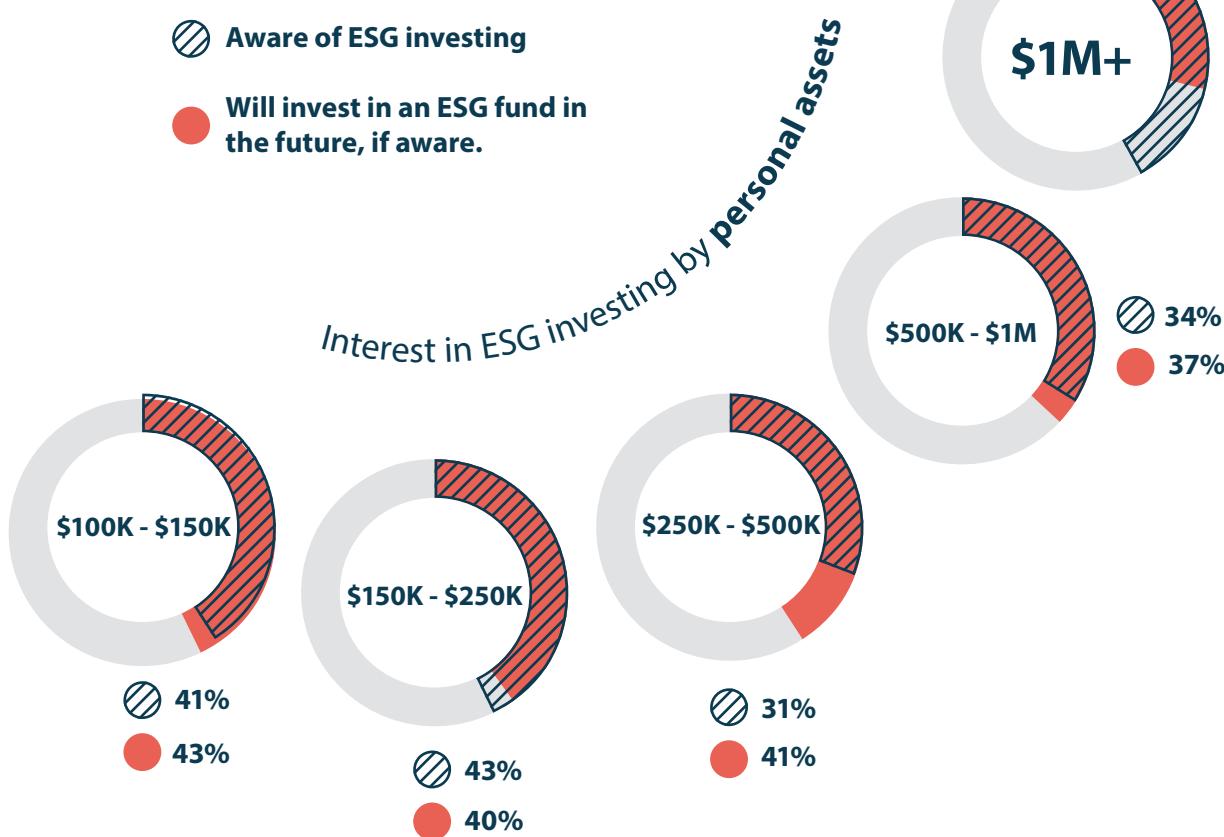
**Contrary to popular opinion, millennials aren't the only ones interested in sustainable investments.**

**As younger investors begin to save for their future, ESG issues will be top of mind—but older investors show significant interest as well.**

Source: New York Life Investments, 2019

**This interest also extends across wealth brackets.**

- Aware of ESG investing
- Will invest in an ESG fund in the future, if aware.

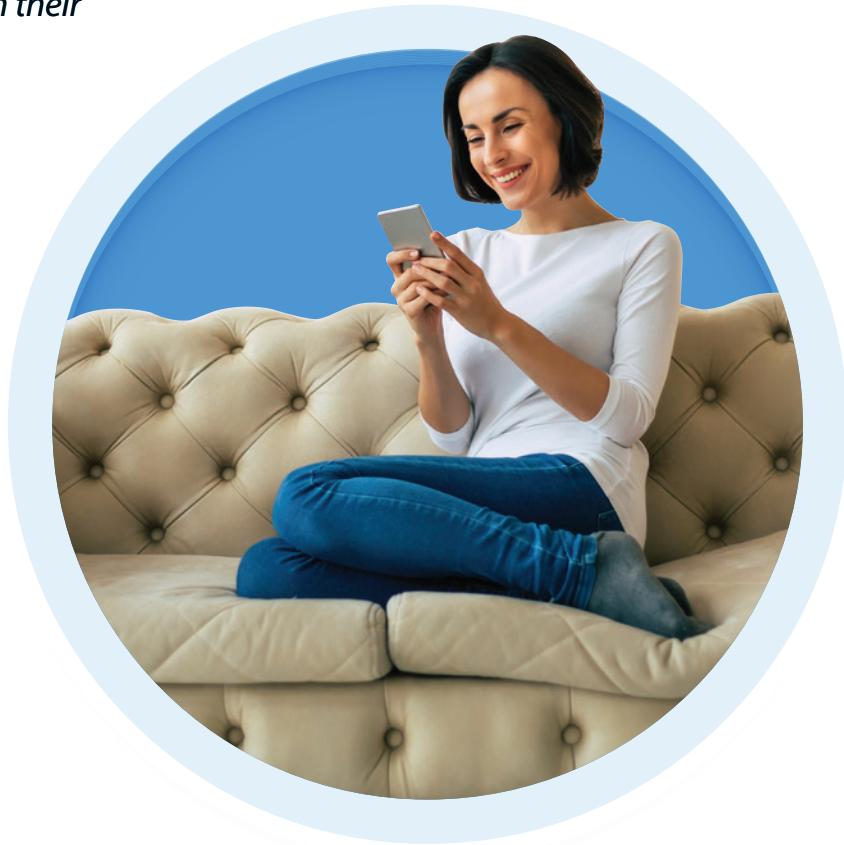


① Awareness and acceptance of sustainable investing is roughly equal across wealth groups. More affluent households may prefer philanthropy to align their finances with their values.

Source: New York Life Investments, 2019

## The typical values-driven investor is:

- ✓ ~48.5 years old
- ✓ More likely to be a woman (56% chance)
- ✓ A holder of a highly diversified portfolio:
  - ✓ Stocks / bonds
  - ✓ Mutual funds / ETFs



### Types of actions they take:



Will divest their portfolio of a company no longer aligned with their beliefs



Will change their purchase habits to reduce plastic consumption

### The attitudes they hold:

*"I think aligning my finances with my values is a positive thing."*

*"I am aware of what's going on in the world and want to help better these conditions in my own small way."*

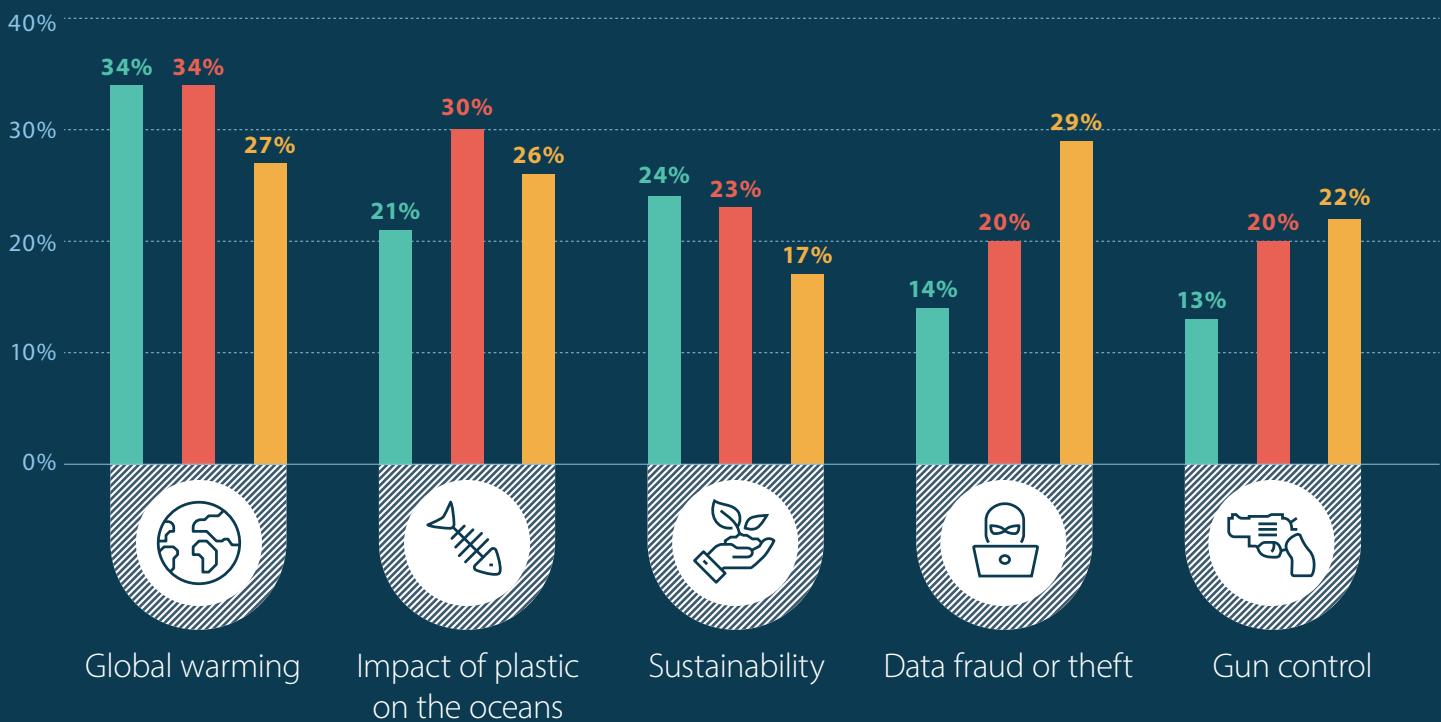
# What issues do values-driven investors care about?

Investors are prioritizing ESG issues differently depending on their age.

## Issues investors want addressed by their portfolios:

Ages ■ 25-39 ■ 40-54 ■ 55+

Source: New York Life Investments, 2019



❶ *This finding is not surprising given that younger investors are more likely to experience the consequences of these longer-term issues.*

❶ *Immediate concerns like data fraud or theft are the top priority for those 55 and older.*

How can investors build a portfolio that addresses these unique concerns?

# Two primary approaches to sustainable investment

## ESG exclusionary investing

Common industry terms:

*Also known as "socially responsible investing" or "negative screening"*

Who it's for:

Investors who want their portfolio to be aligned with their beliefs and values.

*"I want to avoid exposure to the tobacco industry because it harms the health of the global population."*

## ESG inclusionary investing

Common industry terms:

*Also known as "best-in-class" or "positive screening"*

Who it's for:

Investors who believe companies with strong sustainability practices can outperform over the long term.

*"I want to invest in "best-in-class" companies that are committed to long-term sustainability regardless of industry."*

# ESG exclusionary

## HOW IT WORKS

**Investors reduce or avoid exposure to industries that go against their values.**

**Industries commonly screened out include:**



Tobacco



Gambling



Alcohol



Fossil fuels

Exclusionary approaches have been the most common, with the fossil fuel industry receiving much of the spotlight.

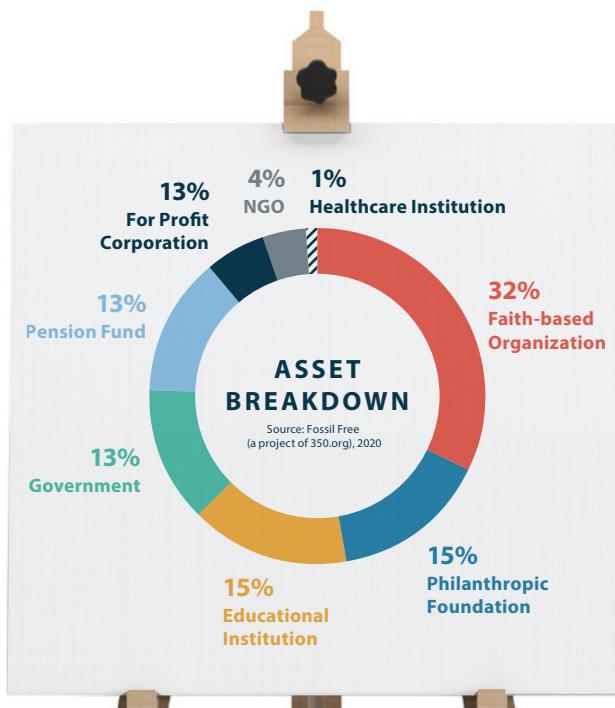
**Institutional investors currently lead the way in fossil fuel divestment.**

1,244 institutions representing **\$14.6T** in assets have committed to a fossil fuel-free portfolio.

Source: Fossil Free (a project of 350.org), 2020

**Fossil fuel divestment involves:**

- ✖ Freezing new investments in the sector
- ✖ Gradually removing existing fossil fuel exposure



But the decision to divest from fossil fuels isn't just based on values. It also has financial motives.

## The stranded assets dilemma

The Paris Agreement calls for global warming to be kept below 2°C this century.

Meeting this goal would result in:

29%

of oil reserves being left in the ground

Financial Times, 2020

-\$360B

lost by the world's 13 largest oil companies

Financial Times, 2020

**Under this scenario, investors who have exposure to these companies could experience losses in the future.**



# ESG inclusionary

## HOW IT WORKS

**Investors formally consider ESG factors to find the best companies in any given industry.**



..... Enhanced with .....



### Traditional financial analysis

- ✓ Analyze the company's financial statements
- ✓ Study historical market trends
- ✓ Consider the direction of the broader economy

### ESG factor analysis

- ✓ Examine the company's waste management practices
- ✓ Monitor the company's employee relations
- ✓ Grade the company's transparency & disclosure

**To help asset managers identify industry leaders, index providers such as MSCI inc. publish ESG ratings for thousands of companies.**

## MSCI ESG ratings scale



### Leader (AAA, AA)

A company that leads its industry in sustainable practices



### Average (A, BBB, BB)

A company with a mixed ESG record when compared to its industry peers



### Laggard (B, CCC)

A company that is failing to manage its exposure to ESG risks

## Can these ratings really improve the long-term performance of a portfolio?

In 2015, MSCI downgraded a U.S. bank due to its high number of customer complaints. A year later, the bank was involved in a damaging scandal:

### What happened?

- ⌚ 1.5M fraudulent accounts uncovered
- ⌚ Nearly 3M clients affected

### Outcome

- ✖ \$185M fine from the Consumer Financial Protection Bureau
- ✖ Ongoing class action lawsuit
- ✖ Damage to brand reputation

*In this case, considering the bank's social reputation may have given investors an advantage over those relying solely on traditional metrics.*

# The importance of advisor-client relations

Despite widespread interest in values-based investing, most investors rely on their advisor to start the conversation.

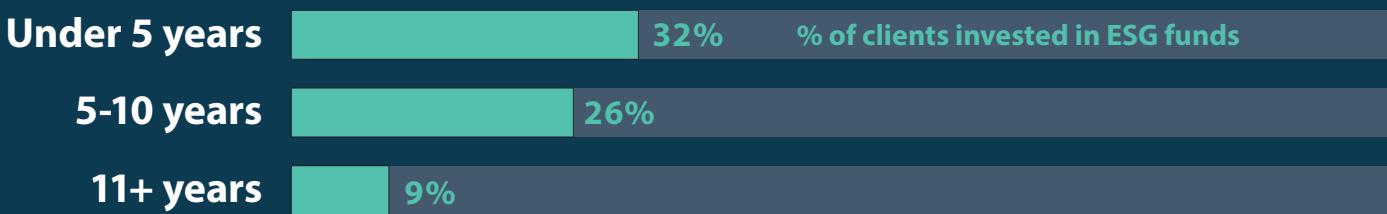


**When asked why they decided to invest in a sustainable fund, 58% stated it was because their financial advisor recommended it.**

Source: New York Life Investments, 2019

Yet, the longer an advisor-client relationship carries on, the less likely it is that sustainable investing will be discussed:

## ▼ Length of advisor-client relationship



**i** *Many advisors mistakenly assume that sustainable investments only appeal to younger clients.*

Source: New York Life Investments, 2019

Regardless of a client's age, open communication about sustainable investment can prove immensely beneficial:

### Benefits for advisors

- ✓ Gain a deeper understanding of a client's interests
- ✓ Increase client satisfaction

### Benefits for clients

- ✓ Become more aware of the tools available to them
- ✓ Achieve a portfolio aligned with their personal beliefs and values



When advisors discuss sustainable strategies with their clients, **63%** proceed from ESG awareness to investment.

Source: New York Life Investments, 2019

**With the help of advisors, investors can feel more confident that their portfolios are aligned with their personal values.**



## INVESTMENTS

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Insights presented in this report are derived from a 2019 study conducted by New York Life Investments in partnership with RTI Research. Results based on survey questions asked of 594 investors, both men and women, with investable assets over \$250k, ranging in age from 25-39; 40-54; and 55+.

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