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ICI Explains: An ESG Roadmap (video)

ICI Explains

An ESG Roadmap

With the growing number of choices in environmental, social, and governance (ESG) investments, ICI has developed a terminology guide to help investors understand the ESG investing options that mutual funds provide. Funds can incorporate ESG into their investing processes in different ways, and the guide enables them to help investors determine which approaches align with their interests.

For more information, visit https://www.ici.org/esg.

Transcript

Many people are taking an interest in environmental, social, and governance matters in investing.

ICI supports the use of simple, consistent terminology by regulated funds to help investors interested in ESG investing understand the choices that funds provide. We've published a guide to help funds do this.

Our guide shows how funds' ESG-related investment strategies coexist along a spectrum and fall under two main investment processes: **ESG integration** and **sustainable investing**. These might sound similar, but there *are* differences.

With **ESG integration**, funds seek to enhance their financial performance by analyzing material ESG considerations along with other material risks.

With **sustainable investing**, funds use ESG analysis as a significant part of their investment thesis to meet investors' objectives, while seeking financial returns.

Funds that pursue sustainable investing commonly do so with one or more of the following three approaches:

With **ESG exclusionary investing**, funds aim to exclude companies or sectors that fail to meet certain sustainability criteria or don't align with their investment objectives.

A fund taking this approach might opt against investing in companies that do business in weapons manufacturing or distribution, gambling, tobacco, alcohol, or nuclear energy.

With **ESG inclusionary investing**, funds generally seek positive sustainability-related outcomes by selecting investments that tilt a portfolio based on ESG factors alongside a financial return.

A fund taking this approach might invest in companies that contribute to and benefit from clean energy generation, sustainable infrastructure, waste management, or other environmentally friendly activities.

With **impact investing**, funds seek to generate positive, measurable, and reportable social and environmental impact alongside a financial return.

A fund taking this approach might invest in bonds that finance affordable housing, healthcare, or mass transit.

By using this terminology, funds can communicate clearly and consistently about their ESG-related investment strategies—and help investors make more informed decisions.
