

Making an Impact Without Largely Impacting Your Portfolio

Many investors have traditionally believed that aligning their values with their investment portfolio necessitated drastic portfolio changes such as excluding targeted companies or entire sectors—a technique known as 'negative screening.' A newer approach to impact investing—known as 'positive screening'—has been statistically shown to generate competitive performance and achieve similar impact, without materially changing one's investment portfolio.¹

Positive screening is the allocation of capital to companies with the most favorable environmental, social or governance policies, agnostic of sector. Investors seeking to minimize fossil fuel exposure provide an interesting case study.

Many investors with an environmental focus have employed negative screening as a means to hold fossil fuel companies accountable for their perceived culpability in the climate crisis, leading to the fossil fuel divestment movement. When, however, analyzing the MSCI All Country World equity index, a mainstream global benchmark that holds over 1,500 companies, we see that roughly 50 percent of fossil fuel exposure is concentrated within just the top thirteen carbon reserve owners.² Through a positive screening approach which underweights major fossil fuel offenders and overweights the companies with lower carbon production, the MSCI Global Low Carbon Target Index achieves a 97 percent reduction in potential carbon emissions relative to the broader world equity index.³ As no sector or individual company is eliminated in positive screening, the diversification benefits help to produce attractive risk-adjusted returns and the overall characteristics of the starting portfolio are not materially changed.

At Glenmede, we continue to research innovative solutions, expanding our knowledge and capability to further enrich our clients' implementation of this specialized and growing investment approach.

¹ <http://www.empirical-research.com/wp-content/uploads/2014/05/Stock-Selection-Investment-Ideas-from-the-Ivory-Tower-May-19-2014.pdf>

² <https://www.msci.com/documents/101199/031bf397-5920-4fef-b743-0c879ae46610>

³ Measured as tons of CO₂ equivalent per million dollars of market capitalization.

Impact Investing is intended to be an unconstrained review of matters of possible interest to Glenmede Trust Company clients and friends and is not intended as personalized investment advice. Advice is provided in light of a client's applicable circumstances and may differ substantially from this presentation. Opinions or projections herein are based on information available at the time of publication and may change thereafter. Information gathered from other sources is assumed to be reliable, but accuracy is not guaranteed. Outcomes (including performance) may differ materially from expectations herein due to various risks and uncertainties. Any reference to risk management or risk control does not imply that risk can be eliminated. All investments have risk. Clients are encouraged to discuss the applicability of any matter discussed herein with their Glenmede representative.