Socially Responsible Investing

Four Steps to Integrating ESG

Three Benefits of Incorporating ESG

Want to be inspired? Ask an entrepreneur to tell you about their company.

Having posed this question to many business owners over the years, I continue to be intrigued by their answers. They share problems their companies are uniquely positioned to solve, opportunities they couldn't pass up, the pride and sense of fulfillment about impact their company has on their family, colleagues and community. It's pretty powerful stuff!

Now, ask the same entrepreneur about their investment portfolio, and cue the crickets.

Where did the passion and inspiration go?

Without a connection to an investor's purpose and values, an investment portfolio can seem like a simple collection of assets. But when an investor (or their investment manager) begins to align values with their investment decisions, that same portfolio can take on much greater meaning. It begins to reflect what is most important to the individual and/or their family. Do you see where I'm going with this—connection, passion, inspiration, pride. Now we're back to the powerful stuff!

If you're ready to chart a path toward more socially responsible investing, consider this your primer for some simple but powerful tools to begin your journey toward connection, inspiration and pride in what you own.

Socially Responsible Investing… It's as Simple as ESG

In simplest terms, socially responsible investing takes into consideration both financial return and social/environmental good. Recent studies[1] dispel the notion that financial return and social good are mutually exclusive—that an increase in one result in a proportional decrease in the other. You can, in fact, do well by doing good.

Environment, Social and Governance (ESG) criteria represent three pillars to evaluate the social responsibility of companies and provide a useful framework for investors to align their investment decisions with their beliefs.

[1]Morgan Stanley Institute for Sustainable Investing (2019). Sustainable Reality Analyzing Risk and Returns of Sustainable Funds. Retrieved from: https://www.morganstanley.com/content/dam/msdotcom/ideas/sustainable-investing-offers-financial-performance-lowered-risk/Sustainable_Reality_Analyzing_Risk_and_Returns_of_Sustainable_Funds.pdf

ENVIRONMENT Impact on the planet	SOCIAL Relationship with employees, customers and community	GOVERNANCE Corporate leadership standards
Climate Change	Human Rights	Executive Compensation
Greenhouse Gas Emissions	Working Conditions	Bribery and Corruption
Resource Depletion	Health and Safety	Board Diversity
Deforestation	Diversity and Equality	Fair Tax Strategy
Energy and Fuel	Impact on Communities	Ethics
Environmental Compliance	Employee Relations	Political Lobbying
Pollution Control	Environmental Justice	Procurement Practices
Resource Scarcity	Non-Discrimination	Resilience
Waste and Recycling	Security	Risk Management
Water Usage	Training and Education	Supply Chain Management

Challenges notwithstanding, using investment portfolios to reflect an investor's values is a trend that is with us to stay. It is important for anyone pursuing such a strategy to stay informed and be aware of the potential conflicts. Keeping a long-term view and having a sense of perspective is always healthy in investing and ESG investing is no different.

Four Steps to Integrating ESG

Intrigued but not sure where to start?

If you work with an investment manager, a simple indication of interest in ESG should be enough to get the ball rolling toward values alignment. If you manage your investments independently, the process for ESG integration can be broken down into four simple steps.

1. **Determine What Matters Most to You –** Gather your stakeholders (i.e. spouse, children, grandchildren, etc.) and determine three or four values or desired outcomes that matter most to you.

   The ESG framework above is a useful reference if you need help guiding the conversation. Another useful resource is the United Nations Sustainable Development Goals (SGD's), which provide a comprehensive list of investable themes used by investment managers to organize and report ESG progress.

2. **Develop Your Impact Statement –** Your Impact Statement will serve as a cornerstone for aligning your portfolio, connecting stakeholders to your desired outcomes and communicating the legacy you hope to leave.

   A strong Impact Statement will clearly and concisely answer some or all of the following:
   - Who are the stakeholders?
   - What are your non-negotiable values?
   - What are your desired long-term outcomes?
   - How will you make an impact?

3. **Implement Your ESG Strategy –** Develop a realistic strategy for aligning your portfolio.

   All journeys have a starting point and your ESG transition is no different. If you work with an investment advisor, request an ESG analysis of your existing portfolio relative to your Impact Statement.

   If you're doing it yourself, free tools such as the Portfolio Impact Footprint from Impact Cubed can provide a basic ESG analysis.

   Armed with a starting point, map out a transition plan taking the following into consideration:

   - **Timing –** Understand that values alignment is a journey rather than a singular step. Be intentional with your ESG implementation, breaking the project into bite size steps over multiple tax years.

   - **Taxes –** Tax efficiency is a hallmark of a disciplined investor. Separate your portfolio into taxable (i.e. standard brokerage) and tax-deferred accounts (i.e. IRA's). Within tax deferred accounts, you can transition more aggressively as taxes are not an impediment. Within taxable accounts, determine an annual budget for capital gains and target investments that result in the greatest progress toward your ESG goals in a given year while maintaining proper diversification and positioning.

4. **Check Your Progress** – Set an annual meeting with your financial advisor to check your progress toward your ESG and financial goals.

   An annual meeting serves two functions. First, it keeps you accountable to your shared mission. Second, it provides an opportunity to connect, reflect and celebrate success stories in your portfolio that can help inspire connection to what you own.

Three Benefits of Incorporating ESG

Historically, the definition of investment success skewed toward financial outcomes—that is, targeting a specific level of growth, outperformance above a benchmark or generating a desired level of income.

Today, investors are requiring more from their investments than just financial return. Engagement, connection and legacy—these are all qualitative benefits that investors can gain alongside financial return.

1. **Engagement with Stakeholders** – The process for integrating ESG requires individuals come together and determine what shared values are most important to them. This is a powerful exercise of reflection, sharing and communication that can have a unifying effect on the group.

2. **Connection and Pride in What You Own** – ESG investing requires more than simply looking at the financial measures of a company, mutual fund or investment vehicle. What is their mission? What do they stand for? What is their impact on the world around them?

   The answers to these questions provide a comprehensive view of an investment. And for those that align with your values, there is an opportunity for greater connection and pride in what you own.

3. **Shared Legacy** – Engaging loved ones, determining shared values and investing with purpose is powerful. But if you take a step back, there is something even more powerful taking place. You are establishing a shared legacy which can live on and inspire loved ones for years to come.

Challenges notwithstanding, using investment portfolios to reflect an investor's values is a trend that is with us to stay. It is important for anyone pursuing such a strategy to stay informed and be aware of the potential conflicts. Keeping a long-term view and having a sense of perspective is always healthy in investing and ESG investing is no different.

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