Environmental, Social and Governance: Aligning Investment Choices with Social Causes

We all have social causes that we care about. But it's not often that those causes and our investment decisions intersect. This does not have to be the case. As investors, we can consider both financial return and social good, giving us a chance to support the causes we care about, while diversifying our investment portfolios.

A Rich History

Investing for social good has a rich history dating back thousands of years, as people have long invested based on their values. In the United States, this investment approach dates back to the mid-1700s, when the Quakers refused to invest in any aspect of the slave trade and avoided investing in companies involved in the liquor, tobacco or gambling industries—the so-called Sin Stocks.

Fast forward to the 1980s, and shareholders, citing their opposition to apartheid-ruled South Africa, convinced U.S. companies to withdraw from South Africa, which fueled an international boycott that brought about change and helped lead to fair elections.

One in Four Dollars Is ESG-managed Today

By assessing potential investments using environmental, social and governance (ESG) criteria, along with financial performance metrics, investors can assign "points" to companies whose practices align with their values. More points translate to a higher weighting in the target portfolio.

The ESG market is huge in the U.S. and around the world. In fact, assets in socially screened portfolios climbed to $12 trillion.[1] According to the Forum for Sustainable and Responsible Investment, one out of every four dollars under professional management in the United States is involved in ESG.[1]

The ESG Criteria

In general, socially conscious investors seek to encourage corporate practices that promote religious beliefs, environmental stewardship, consumer protection, human rights or diversity.

Money managers are incorporating ESG criteria into their investment analysis and decision-making. In 2018, they applied ESG factors to limit investment in the following categories.[2]

- Climate Change/Carbon
- Tobacco
- Conflict Risk
- Human Rights

Different Terminology, Same Idea

As you can surmise, there are as many approaches to Socially Responsible Investing as there are SRI investors, who may refer to SRI as:

- Community investing
- Ethical investing
- Green investing
- Impact investing
- Mission-related investing
- Sustainable investing
- Values-based investing

Things to Think About

Ruling out companies for practices that you disagree with does occasionally result in diminished profits. In fact, a good financial advisor will warn investors that their environmental and social screens might result in leaving money on the table.

Further, as in all investing, having a broad diversification of your investment portfolio is always important. Most financial advisors will therefore recommend mutual funds that cater to social responsible principles for this reason. For example, investors who see global climate change as a significant business and investment risk can consider investing as part of the portfolio in environmentally conscious companies.

Investing according to your conscience can turn your portfolio into a powerful agent for change you believe in.

If you are interested in socially responsible investing, ask your financial advisor to help you find investments that match your values.

[1] Forum for Sustainable and Responsible Investment. "SRI Basics." https://www.ussif.org/sribasics. Accessed July 2019.

[2] US | SIF Foundation. "Report on US Sustainable, Responsible and Impact Investing Trends 2018. "https://www.ussif.org/files/Trends/Trends 2018 executive summary FINAL.pdf. Accessed July 2019.