Socially Responsible Investing: How to best match money with your values

Q: Our family gathers during the holidays and we often discuss our social concerns and values. What can you tell me about socially responsible investing, so we can avoid talking about politics?

A: Whether you're referring to Environmental, Social, Governance (ESG) or Socially Responsible Investing (SRI), there are more ways than ever to align investments with values.

SRI has evolved from a philosophy that focuses on **exclusion** to one that seeks to **reward** companies for good citizenship, and it's now known as ESG.

The story of ESG investing began in 2004 when former UN Secretary General Kofi Annan wrote to over 50 CEOs asking for participation in a joint initiative. The goal of the initiative was to find ways to integrate ESG into capital markets. A year later this initiative resulted in a report entitled "Who Cares Wins" and authored by Ivo Kneopfel. The report made the case that ESG factors in capital markets make good business sense. It may even lead to more sustainable markets and better outcomes for society.

This was supported by Morningstar analyst David Kathman who said "no evidence shows ESG or socially responsible investing helps or hurts performance. Over the long term, it probably evens out." Since Morningstar doesn't sell anything except research, I'll take it.

Jon Hale, Morningstar's Director of Sustainability Research, reports that there are over 275 ESG mutual funds and ETFs available. Morningstar provides sustainability ratings, researches fund prospectus, and evaluates equity funds based on the ESG profiles of companies.

Ask your family members to define what "socially responsible," "sustainable" and "impact" mean to them. Whether it's climate change, green energy or female-led companies, consider the moral, ethical, religious and social impact. When evaluating investments, look beyond financial statements. People feel better when they believe they're making a positive change.

ESG factors cover a wide spectrum of issues. These may include how corporations respond to climate change, how good they are with water management, how effective their health and safety policies are for protecting against accidents, how supply chains are managed, treatment of workers and whether the corporate culture builds trust and fosters innovation.

Vanguard has an ETF that excludes companies that are involved with adult entertainment, alcohol, fossil fuels, gambling, nuclear power, tobacco and weapons. Dimensional Fund Advisors creates funds of companies that they feel should be rewarded for acting in more environmentally responsible ways than their competitors. By not excluding entire industries, their ESG funds are more broadly diversified.

Family gatherings are an opportunity to share values. There is no consensus on what a "good" ESG portfolio looks like, but the group can do good and feel good and still get good returns.

The family will enjoy the discussion around the search for the "right" funds that will meet each of their individual priorities and expectations. Enjoy your holidays!!

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