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Q:

Will “socially conscious” investing hurt my returns in today’s market?

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Few eras in American history have produced more “movements” than the 1960s and 1970s, including those committed to protecting the environment, and those crusading to shield consumers from corporations that seemed to put profits ahead of their customers’ well-being. A popular saying of the time was, “As General Motors goes, so goes the nation,” meaning anything that threatened GM—like political activism and the safety regulations it spawned—was basically un-American.

Still, the torch was passed to a new generation, one that did eventually cut its hair, get a job and prove to be breathtakingly good at making money. Only, there was a twist to that goal, which posed the question:

Is it possible to make money as a company or an investor and at the same time be environmentally, socially and corporately responsible?

This was a radical idea for a time when the bottom line still reigned supreme. But the idea took root, primarily among investors who employed a negative screen: Do not invest in a specific list of offending companies or categories: alcohol, tobacco, oil and gas, gambling, weapons or firms that are blatant polluters and/or exploiters of labor.

This exclusionary approach came to be called socially responsible investing, or SRI. Since many of the stocks SRI investors loathed made their holders lots and lots of money, the conventional wisdom was that SRI investors had to forego some returns to follow their moral compass. But, then, a little over a decade ago, a new movement appeared.

In the early 2000s, corporations and investors awoke to the fact that being responsible was, in fact, good for business. This new sensibility caused a disruption in the corporate world, which changed societal thinking and policies, and produced countless new opportunities for SRI investors. This new standard came to be known by three letters: ESG, standing for the environmental, social and governance. Companies on board with ESG:

• Committed to **environmental** protection, by shrinking their carbon footprint, reducing greenhouse gas emissions and not practicing resource depletion

• Committed to a better society through **social** justice, embracing diversity in their workforce and avoiding countries that allow slavery, child labor and life-threatening working conditions

• Monitored the **governance** of their corporate structures, allowing zero tolerance for practices like bribery, corruption and inappropriate political lobbying and donations

En route, these companies discovered that good governance is good for business. For example, applying ESG principles filters out risks that could lead to negative publicity, and negatively affect a company's valuation. One could make the argument, that companies following a sustainability-based approach are likely to be more profitable over time, and deliver better shareholder returns.

Today, given the much broader universe of investment vehicles, including mutual funds and ETFs focused on this space, investors no longer have to make a binary choice. The new ESG sensibility has produced a near-limitless list of SRI opportunities, including impact-first investments that address specific social or environmental concerns using market-based solutions.

As a firm, we believe that the focus and client demand for ESG capabilities will only continue to grow in importance. We have dedicated resources to researching and building portfolios that allow our clients to express specific or broad themes that they view as important in this area.

Not surprisingly, ESG investing has grown by more than 97 percent globally in the past 20 years. In dollar value, the number has gone from tens of billions to trillions, and the number of investment funds has increased from tens to thousands[1]. You might say that ESG has taken SRI investing from *ex*clusionary to *in*clusionary, to a paradigm of active engagement rather than retreat. ●

"Starting in the early 2000s, corporations and investors awoke to the fact that being responsible was, in fact, good for business."

[1] Forbes.com: In ESG We Trust.

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ABOUT PAUL TAGHIBAGI AND TEAM

Paul Taghibagi, Michael Macauley, Eugene Lev and John Williams—based in Century City, Calif.—focus on delivering sophisticated, unbiased financial advice and a high touch experience. Client relationships often span multiple generations. Asset management is one of several mission critical areas; others include retirement, estate, insurance and tax planning. Serving as fiduciaries, we oversee the creation and execution of a customized wealth plan. Our firm is unique because we focus on maintaining a disciplined approach curated to each client's objectives.

EXPERTISE

Financial Services Experience	Education	Assets Under Management
28 YEARS	Bachelor of Arts, Business Economics, University of California, Santa Barbara	$7.8B (as of 12/31/2017)

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