Socially Responsible in SoCal

By Eric C. Pritz, CFP®, CMFC

This year, the City of Manhattan Beach launched a *Sustainability Task Force* comprised of business, scientific, nonprofit, environmental, government and education leaders, to help implement new initiatives and policy recommendations around environmental sustainability. From climate change resiliency and sea level rise vulnerability assessments to renewable energy, water conservation and plastics reduction efforts, the group is expected to actively address a wide range of sustainability issues.

It should come as no surprise that we live in an area that very much prizes social responsibility – not only in the public sector, but in the business community as well as our personal lives. As a financial advisor, the topic of socially responsible investing is coming up much more often in my interactions with clients and local business professionals. Today there's more than $8.72 trillion U.S. dollars invested using socially responsible investment strategies.[1]

But exactly what constitutes socially responsible investing? What types of factors go into deciding whether one company is more or less socially responsible that its peers? And just how much will trying to "do good" with your money hurt the performance of your portfolio?

How do I know if an investment is "socially responsible?"

Socially responsible investing isn't a new phenomenon. For decades people have been looking for ways to align their investments to their personal values by excluding investments in so-called "sin stocks." However, depending on how strict they chose to be in prohibiting entire industries (e.g., alcohol, tobacco, firearms, casinos, fossil fuels, etc.), their investment performance would often lag that of a more diversified portfolio by a significant margin.

Rather than punishing companies for their misdeeds based on moral or ethical concerns, investors today are instead looking to incent and reward those companies that continually exhibit positive environment social and governance (ESG) behaviors. In essence, it's an attempt to use carrots instead of sticks to incent greater social responsibility. While there's no standardized measurement system to grade firms on these factors, generally investors look at the following:

Environmental – making an effort to positively impact climate change; minimizing greenhouse gas emissions; limiting energy usage, resource depletion and pollution

Social – attentive to employee health and safety; committed to workforce diversity; engaged with and giving back to the community

Governance – transparency of reporting; free of any bribery/corruption scandals; a well-structured and diverse board of directors

For the most part, companies have become increasingly willing to embrace this challenge. Why? Because strong environmental, social and governance policies make for a more efficient, productive, engaged and happy workforce – as well as more passionate and loyal consumers. This is particularly important as baby boomers give way to millennials in the workforce. Younger workers today are far more attentive to and questioning of corporate behavior. Not only do they expect businesses to step into the growing leadership vacuum that was once the purview of now polarized political parties, millennials are quick to harness the growing power of social media to punish any perceived corporate missteps or aberrant behavior.

Responsible AND profitable

While pursuing a socially responsible investment strategy may have required a meaningful sacrifice of return in days past, that's simply no longer the case. Recent studies clearly show that the sacrifice in average annual return potential associated with socially responsible investing is relatively small (6.9% vs 8.1%) when weighed against the opportunity to significantly improve the well-being of countless individuals and communities.[2] In the near future many experts actually predict that difference to reverse as money and demand moves towards the better governed and engaged corporations.

The wide array of values-based funds available to invest in continues to expand exponentially, with each new approach offering a slightly different focus and emphasis. In addition, according to a 2018 analysis published in the February 3rd issue of Barron's, California is home to the corporate headquarters of no fewer than twelve of the country's twenty-five "*Most Sustainable Companies.*"

What used to be a black and white choice – either investing to make money or being philanthropic – has today become a broad spectrum of grays. One thing, however, is certain: investors now have a unique opportunity to harness the power of their investments to serve as a force for positive change.

[1] Global Impact Investing Network, 2017

[2] Forum for Sustainable and Responsible Investment, 2017

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