Should You Help Clients Invest Sustainably?

By Sandi Weaver, CPA, CFP, CFA

Sustainable investing is a trending topic. Financial advisers see it in their journals, in the fund and ETF research they use, and in many fund family offerings. In reality, few clients ask that their savings be invested in such a manner, perhaps because few clients realize it's an ever-increasing possibility. Therefore, few financial advisers have sizable investments in sustainable investing.

At a client's request, I constructed my first socially responsible portfolio years ago. What type of client asks for that? Then it was a nurse practitioner with a calling; now it's a former owner of a religious publications company, fellow church members, and others. Clients can invest with their values now.

Perhaps the slow integration is due to confusing labels. In the past, "socially responsible" investing focused on excluding certain industries based on ethical or moral values (e.g., don't invest in tobacco company stocks). "ESG" investing rates companies on environmental, social and governance practices (e.g., invest only in chemical companies with responsible anti-dumping policies). "Impact" investing often applies to direct investments in private enterprises, such as enabling unskilled workers or re-developing wasted inner cities. "Sustainable investing" can be used to encompass all of these.

The slow integration of companies could be due to the lack of consistency. Who sets the standards? Some entities are doing so now, including Sustainability Accounting Standards Board, and Global Reporting Initiative. Who rates the companies? There's MSCI ESG Research, the well-known *Sustainalytics.com*, Institutional Shareholder Services Inc., Moody's Vigeo Eiris, Thomson Reuters' Asset4, and plenty more. Who provides research data? RepRisk, S&P Global's Trucost, FactSet's TruValue Labs, CDP, and others capture data in specialized segments. These feed into research services such as *Morningstar.com* and Bloomberg. Mind-boggling? Yes, but perhaps perfect correlations across data and ratings isn't as necessary as a more binary question—sustainable or not?

How do financial advisers construct a portfolio for sustainable investing? One approach is to set a goal to sustainably invest a certain percentage of a client's portfolio, such as 30 percent or 50 percent or 75 percent. That target lets you change out core holdings—mutual funds or ETFs—for others with high sustainability ratings. It's easy to construct a portfolio where 30 percent of the investment dollars are in companies doing business on a sustainable, responsible basis. Usually, there is no degradation of performance over the long-term. It may cost more, in terms of performance, to switch 75 percent of a client's dollars into sustainable investments.

There are many other viable approaches. The Financial Planning Association's Massachusetts Chapter interviewed financial advisory firms in a ESG panel podcast. One firm chose individual stocks with high ratings. One firm used local companies and did their own due diligence. Another approach was to construct portfolios using all funds and ETFs with high sustainability ratings; that firm's clients used either the regular core portfolio or the high-sustainability portfolio. One of the firms used only sustainable investments for all portfolios and all clients.

One of the firms purchased special research for this purpose alone, but many tools exist. Morningstar has several data points addressing sustainability: a socially conscious funds flag, sustainable fund by prospectus flag, a five-part sustainability rating, ESG pillars scoring, and more. Also, brokers supply lists of available funds. Schwab Institutional produces annual lists correlating Morningstar data with investments available on their platform. Fidelity is introducing their ESG Pro data, available with a paid subscription. Blackrock has several tools that can incorporate their plethora of passive ESG ETFs, here in the United States and abroad, investing in bonds and in stocks.

Financial advisers are in a position now to offer their clients something more—a chance to not only invest wisely but a means to improve our world.

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