LAMORINDA WEEKLY Independent, locally owned and operated! www.lamorindaweekly.com 925-377-0977

Published November 14th, 2018

Lynn's Top Five

By Lynn Ballou CFP(r)

Lynn Ballou is a CERTIFIED FINANCIAL PLANNER (tm) professional and Regional Director with EP Wealth Advisors, a Registered Investment Advisory Firm in Lafayette. Information used in the writing of this column is believed to be factual and up-to-date, however, we do not guarantee its accuracy. This column does not involve the rendering of personalized investment advice and is not intended to supplement individualized professional advice. A financial, tax and/or legal professional should be consulted before implementing any of the strategies directly or indirectly suggested and discussed. All investment strategies have the potential for profit or loss.

Socially Responsible Investing. Impact Investing. Sustainable Investing. And most recently, ESG Investing. In these current strained political times, more and more investors look more closely at their investment selections and discuss these options with their advisors. And of course as citizens of the Bay Area, we are more attuned to this topic than most. So, what exactly is ESG Investing and what might it mean to you? I recently discussed this important topic with two members of EP Wealth Advisors' Investment Committee. I think you will find their remarks, which follow, very valuable.

Defining ESG Investing: Geniffer Takacs, CFA and associate portfolio manager with EP Wealth Advisors, explains that "Technically, ESG investing stands for Environmental, Social and Governance, although the acronym is used interchangeably to cover a wide spectrum of goals and strategies that involve responsible investing that cover a variety of humanitarian, environmental, ethical and social concerns."

Whap happened to the phrase "Socially Responsible Investing"? Takacs notes that "negative and exclusionary screening has been the primary method of Socially Responsible Investing. For example, one of the first major movements in SRI was divesting from companies doing business in South Africa during apartheid and redirecting those investments. Unfortunately, one of the main drawbacks to SRI was traditional investors sacrificed diversification from their portfolio by excluding certain companies/industries. Over time SRI has evolved from investments based on moral objections to include investments that aligned with investor values-based preferences which is known as ESG investing."

What are some typical ESG considerations or "screens"? Sid Ean, senior portfolio manager with EP Wealth Advisors, points out that "there a number of different factors, metrics and data to consider in constructing an ESG strategy. Typically these factors are industry specific key issues such as climate change, human capital and labor management, corporate governance, gender diversity, privacy and data security, to name a few. The risks and opportunities of companies differ industry to industry therefore companies should be evaluated on the key issues specific to their respective industries."

Is ESG investing now standardized? Not yet! "There are a variety of challenges in using ESG data and the ESG metrics are weighted differently across different fund managers and data providers," according to Takacs. Ean provided the perspective that when SRI was first introduced different analysts weighted specific areas more than others. He also explained to me that a chart of the issues has evolved in the industry. As an example, "environmental" screens would include climate change issues, pollution and waste, as well as environmental opportunities. Further, "social" screens can include human capital, product liability and stakeholder opposition. And "governance" screening looks at corporate governance and corporate behavior. Complex indeed.

Should I only own ESG screened investments? Although there is emerging research that an ESG based portfolio can at the very least hold its own compared to the performance of other, more traditionally asset allocated portfolios, Ean hastens to point out that "An ESG strategy is not a silver bullet when it comes to investing. Having a solely ESG strategy does not guarantee that you will outperform the rest of the market. An investor should define what they want to achieve and determine what approach they want to take when incorporating ESG investing into their portfolios."

While this is an exciting, some would say nerve wracking, time to be an investor, it's important to stay current on what you hold and why, and all your options. Reach out to your team of advisors, including your Certified Financial Planner, to clarify your goals and resources to be sure you remain on the right track.

Reach the reporter at: info@lamorindaweekly.com

back