

A Beginner's Guide to ESG



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Environmental, Social, and Governance (ESG) - By Lindsey Woodward

The Bigger Picture

I've always considered myself to be pretty mindful of trying to do my part when it comes to

environmental and social issues. Whether it's skipping my drive to walk to work or shopping for fair trade products, I often find myself doing little things that reflect my values on a regular basis. Then one day, I realised that there was a big piece of the puzzle that I had been overlooking...my values were not guiding any of my investment decisions.

When I first learned about environmentally and socially conscious investing several years ago, I took a look at my portfolio and was appalled. The mutual funds I was invested in owned companies that were massive polluters, cited for human rights violations, and paying CEOs thousands of times more than their average employees. Did my attempts to forgo a plastic bag or straw here and there really help when the majority of my net worth was helping to fund these operations? Probably not so much.

What is Values-Informed Investing?

So, how do you begin to align your portfolio with your own values?

First, you need to understand a little about how they are typically categorized. The values that can be integrated into portfolio decisions can be broken into three different categories: **Environmental, Social, and Governance (common acronym = ESG.)** Companies or governments up for investment can be evaluated on all three, based on an individual's preference.

The **environmental** piece addresses the company's impact on the planet. You might ask if a company is dedicated to making good use of its resources? Are they investing in green technology? What is their carbon footprint?

When it comes to the **social** impact of a company, think of the effect on people (and critters).

Are employees, and others in the supply chain, given fair wages and good working conditions? Does the company have policies that support women, the LGBTQ community, diversity, etc.? Does the company engage in animal testing?

A little less intuitive (at least to me at first) is **governance**. These issues are related to how a company is run from the top. Are executives overpaid? Is there diversity on the board? Is the management incentivized to do the right thing for clients, employees, and shareholders?

Divest, Invest, Engage

Knowing what to look for is the first step, now you need to know how to take action. There are three strategies that can help you address issues within your investment portfolio.

1. **Divest** from companies that conflict with your values: Once you identify your values in terms of investing, you can eliminate companies from your portfolio that are misaligned.

For example, did you know that Exxon Mobil is estimated to be responsible for 2% of the world's greenhouse gas emissions since 1988? And because the company is so large, it shows up in many portfolios by default.

2. **Invest** in companies and projects that support your values: There are many companies and government entities taking positive, impactful actions, and you can elect to support them

with your investments.

For instance, last year Starbucks announced it had reached 100 per cent pay equity for people of all genders and races performing similar work in the U.S.

3. **Engage** by using your power as a shareholder to bring change: When you buy a company's stock, you are essentially a partial owner (congrats!), which gives you the ability to influence the operations of a company through dialogue, proxy voting and shareholder resolutions.

Many studies have shown this final tactic to be the most impactful way to significantly influence a company's behaviour. But since this topic warrants an entire blog post on its own, I'll share a guide from our friends [As You Sow](#) on [shareholder engagement](#).

Each of us has a unique set of values and passions that guide our decisions, and a combination of these three strategies is a great way to ensure your portfolio is helping to support those values, rather than working against them. If you're ready to start aligning your money with your values, reach out to your advisor and find out what ESG options are available to you.



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