

Socially Responsible Investing

By Steven Mayo

With the help of research from RBC Global Asset Management, let's discuss this trend and the portfolio management process.

Socially Responsible Investing has been around for 30+ years but has garnered more attention recently, become more defined, and is more strictly applied to investing. This investment criteria is anchored on three main topics: Environmental, Social, and Governance (ESG).

E is for Environmental: This is a review on a company's impact on climate change, greenhouse gas emissions, and resource depletion, including water, waste, pollution, and deforestation.

S is for Social: These factors include working conditions/standards, impact on local communities, presence in conflict zones, health & safety, employee relations/diversity and pay equality.

G is for Governance: The focus is on executive pay, potential for bribery/corruption, political lobbying and donations, Board diversity and structure, and tax strategy.

When analyzing any company prior to inclusion in a portfolio, investment managers will carry out a review of the target investments' ESG scorecard. The scorecard compiles results from the screening process of each of the three factors and determines whether it can be purchased, or is excluded. Ongoing monitoring of ESG compliance is an important part of the investment process. It is worth noting that companies that have a positive ESG score tend to have share price outperformance.

Investors may be surprised to know that many of North America's largest companies, including resource companies (Oil & Gas, Mining, and Forestry), score well in their ESG behavior. Corporations have taken notice as evidenced by the announcement in August 2019 that "181 chief executives from the US Business Roundtable signed a statement saying they would lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and share owners."

Investment management has evolved dramatically since I started my career 35 years ago. The "Socially Responsible" trend is here to stay.

Quotes:

Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the licence to operate from key stakeholders. ~ *Larry Fink, CEO BlackRock*

Creating a strong business and building a better world are not conflicting goals – they are both essential ingredients for long term success. ~ *Bill Ford*

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