Aligning Investments with Personal Values

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Note to readers: For more information on environmental, social, and governance (ESG) criteria, see our PD Experts article on pages 48-49.

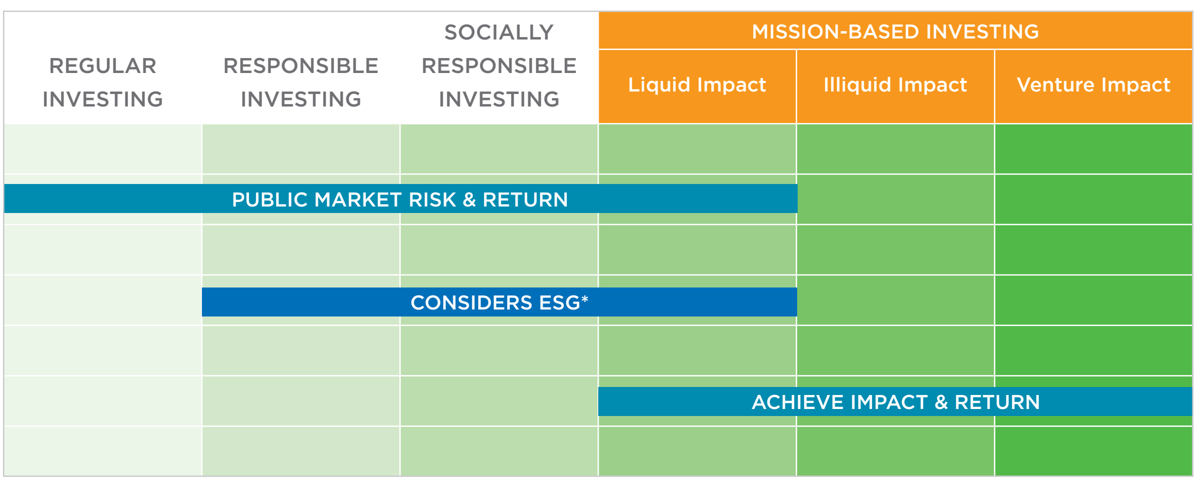
Many clients who come into financial windfalls, such as tax refunds or inheritances, wonder how best to put that money to work without funding activities that conflict with their personal values. For some, this may mean they don't want to invest in companies engaged in activities that contribute to climate change or the degradation of the environment; for others, it may mean avoiding investments in companies that make weapons or pesticides. The good news is that there are now different options available to help individuals invest according to their personal ethics, whether they're interested in responsible investing, socially responsible investing, or mission-based impact investing.

How do these options differ? How does an accountant advise on investments that align with clients' values? If you're the investor, how do you find the right mix for you?

Corporate social responsibility vs. social impact

Corporate social responsibility (CSR) might be referred to as the minimum amount of "giving back" a corporation must do to be seen as a good corporate citizen. Think of a mining company sponsoring after-school programs in the towns where it operates, for example. Social impact, by contrast, refers to the good a company wants to do—in many cases, it's the company's very reason for existing. For example, think of an apparel company like Patagonia, which seeks to "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis."[1] (On November 28, 2018, Patagonia demonstrated its commitment to this mandate by announcing it would donate its US$10 million in tax cuts to grassroots environmental organizations.[2])

Not everyone is concerned about for-profit companies doing good in the world beyond basic CSR. So here's a scale that can help potential investors identify the companies whose values mirror their own:



*ESG= Environmental, social, and governance criteria

Responsible investing vs. socially responsible investing

At one end of this scale, you have responsible investing. Responsible investing considers how a company fares when measured on environmental, social, and governance (ESG) criteria, but it does not oblige fund managers or investors to act based on these measurements. Instead, ESG considerations are integrated into the analysis process as a component of financial risk management; for example, an investor may recognize the risk involved in owning an oil and gas company's stocks but believe this particular company will give them the highest return potential.

Clients often ask portfolio managers questions like, "Why are there oil and gas companies in my 'responsible investment' portfolio?" The answer, as noted in the previous paragraph, is that even if a company scores relatively poorly on ESG criteria, the mere fact that it has been considered makes it count as a responsible investment. On the flip side, a progressive company with a strong ESG rating may be excluded from a responsible investment portfolio because it offers little in the way of a return. And in some cases, a company may be strong in terms of one ESG criterion but weak in the other two—like a "green" company facing an employee lawsuit, for example.

While responsible investing does integrate ESG considerations into the financial analysis process, it does not inherently link a portfolio to clients' values. That's where socially responsible investing (SRI) comes in. SRI applies negative and positive screenings of ESG risks, and then uses these screenings to align an investor's portfolio with their specific values. Companies involved in fossil fuel extraction or companies with poor ethics and governance don't belong in a socially responsible portfolio.

Mission-based (impact) investing

Where socially responsible investing seeks to mitigate an investment's negative impacts, mission-based or impact investing actively seeks to put money to work for good. This may mean investing in companies that finance clean energy projects or support local community programs. B Lab[3] is a global not-for-profit body that identifies these companies by comprehensively assessing them to determine whether they meet high standards of social and environmental impact and transparency; companies that meet these criteria are awarded

[1] Patagonia's mission statement: **patagonia.com/company-info.html**.

[2] Jeff Beer, "Patagonia Is Giving Its $10 Million Tax Cut Back to the Planet," *Fast Company*, November 28, 2018. (**fastcompany.com**)

[3] **bcorporation.net/about-b-lab**

B Corporation[4] (B Corp) certification. Canada established the first B Corp community outside of the United States and certified its first B Corp in 2009. There are currently more than 230 Canadian companies from diverse sectors certified as B Corps, and B Lab rigorously assesses each company every three years to ensure the company is still committed to using business as a force for good.

Becoming a Benefit Corporation takes a company's commitment to purpose even further. To be certified as a Benefit Corporation, a company must have legal protections built into its business model that keep it committed to accountability, transparency, and purpose, and it must publish a yearly benefit report. As Jonathan Storper put it in 2015, "…the Benefit Corporation was created to build the B Corp mission into the DNA of the corporation."[5] If a shareholder charges the company with failing to fulfil its public benefit purpose, they can bring about legal action that forces the company to correct its course. Interestingly, British Columbia may become the first province in Canada to adopt Benefit Corporation legislation—the Green Party tabled a bill in July 2018 that had passed its second reading by the time of this writing.[6]

Impact investments (whether involving B Corps, Benefit Corporations, or neither) may require some financial trade-off, usually in the form of illiquidity, meaning that the investment cannot be converted to cash easily without materially affecting the price. Owning an illiquid impact investment may come with additional risk as well—for example, it may not be possible for investors to trade bonds on any public exchanges. On the other hand, impact investments in marketable securities listed on a stock exchange are highly liquid.

Ethical investing on the rise

Classifications aside, Canadians are increasingly looking to support companies that stand for something beyond just making money. Investors are losing interest in a one-size-fits-all approach and are looking instead to customize their portfolios based on their values. Some may be fine with fossil fuels, but not okay with junk food. Others may want to exclude GMOs and include green energy. Thankfully, no matter what an individual's personal preferences may be, the old perception that it's necessary to invest in "some of the bad stuff" to generate strong returns is no longer accurate. ■

4 **bcorporation.net/about-b-corps**

5 Jonathan Storper, "What's the Difference Between a B Corp and a Benefit Corporation?" *Conscious Company Media*, April 4, 2015. (**consciouscompanymedia.com**)

6 Alex McKeen, "Provincial Green Party Eyes Making B.C. the First Canadian Jurisdiction to Recognize 'Benefit Corporations,'" *StarMetro Vancouver*, May 2, 2018. (**thestar.com**)