The Divestment Talk:
How To Broach The Conversation About Financial Legacy

Mike Thiessen

We live in a rapidly changing world. Climate change is no longer a looming threat, but something we're actively contending with. Movements for gun control, gender equality and racial equity are gaining steam. And more investors are asking questions about what their money is funding.

There is a pervasive belief that investing in at least a little bit of the traditionally bad stuff (fossil fuels, arms manufacturing, tobacco, private prisons) is necessary to generate strong returns, though many investors don't view those investments as bad at all. Whatever your loved ones' personal philosophy, there is an investment strategy to match.

Financial legacy isn't just about what ends up being bequeathed in a will; it's about consciously choosing to invest your money in a way that aligns with your values.

For many families, money isn't something discussed openly or often, so broaching the subject of financial legacy can be tough. To help, here are some conversation starters and talking points for adult children looking to talk to their parents, grandparents, and relatives about aligning their investment portfolios with their values.

The Case For Responsible Investing

Older generations may not actively seek out ways to ensure their financial portfolio is socially and environmentally conscious, because until recently, it just hasn't been common practice. It's important to communicate in a conversational and non-judgmental way how the choices of older generations will affect younger generations of the family in the future.

It may feel awkward to bring up financial legacy with a parent or loved one at first. Discussing recent headlines around countries and institutions announcing major fossil fuel divestments or shareholder activism, and the rationale behind them, can be a good way in.

Questions to ask:

- What causes do you care about and would like to support? Is it the environment? Society? Healthcare? Technology?
- Do you know what types of projects your investments are supporting now?
- Would you be willing to make changes to your portfolio if you knew it was important to your loved ones?
- What are your biggest concerns when it comes to divesting?
- What would you like your financial legacy to be? What difference would you like your money has made in the world?
- What would you want your grandchildren to know you cared about most, and actively supported?

FAQs

What is divestment and how does it work?

"Divestment" is the opposite of an "investment." It means getting rid of financial assets issued by companies or industries that you don't support. Major banks and institutions all over the world (the Catholic Church, Norges Bank, New York City) are divesting or planning to divest from fossil fuels, both for values-based reasons and to avoid the risk of stranded assets as the world transitions to a low-carbon economy.

Why should I care?

Diversification is important. Canada's economy is highly correlated with fossil fuels, including jobs, retirement savings, housing prices and the Canadian dollar. Doubling down and also having fossil fuels in a portfolio is risky. Some of the associated risks include increasing government regulation, carbon taxes, and litigation from communities affected by climate change.

One of the big skepticisms around divesting is that it isn't financially sound. But a study of the past 20 years shows that when you take fossil fuels out of your portfolio, you'll either match market returns or beat them.

Financial legacy involves developing a clear understanding of how your choices will impact the world for years to come. Divesting from fossil fuels will help reduce harmful emissions and improve air quality by helping to speed up the transition to a low-carbon economy. Divesting from tobacco companies could reduce the number of people harmed by their products in the future. On the other side, investing in healthcare innovation may mean an end to certain diseases in our lifetime.

Will my returns suffer?

Divesting from fossil fuels specifically does pay. In The Divestment Report, Genus Capital studied the data for fossil-free and traditional portfolios over four years, and the fossil-free funds performed as well or better than their carbon-heavy counterparts. Likewise, the same report included a seven-year study on sustainable portfolios (those without tobacco, gambling, arms manufacturing and other controversial industries) and determined that they also outperform their non-sustainable counterparts.

A study by Hunt and Weber from the University of Waterloo[1] showed that after divestment of fossil fuel investments, portfolio value continued to grow, leading to better performance. So, a values-driven, socially responsible investment strategy also happens to be financially beneficial.

What should I know before I divest?

There are levels to sustainable investing, from responsible investing, which considers (but doesn't necessarily act on) environmental, social and governance factors, to impact investing, which actively puts money to work in initiatives improving the world. You can tailor your financial legacy to align with your values.

Starting a dialogue with friends and family about financial legacy and putting money to work for a sustainable future is a good place to start.

Looking for more information?

Here are some other helpful resources:

- Climate Science Basics, 350.org
- Fossil Fuel Divestment Brings Us Closer To A Clean Energy Future, The Huffington Post

Mike Thiessen is manager of sustainable research at Genus Capital, the first Canadian investment management firm to offer fossil free portfolios and a pioneer in Canada's Divest-Invest movement.

[1]Chelsie Hunt, Olaf Weber (2018). Fossil fuel divestment strategies: Financial and carbon related consequences. UWSpace. http://hdl.handle.net/10012/13043