



# Investing According to Your Values

*Yes, you can do well by doing good!*



# But first, a word from Compliance ...

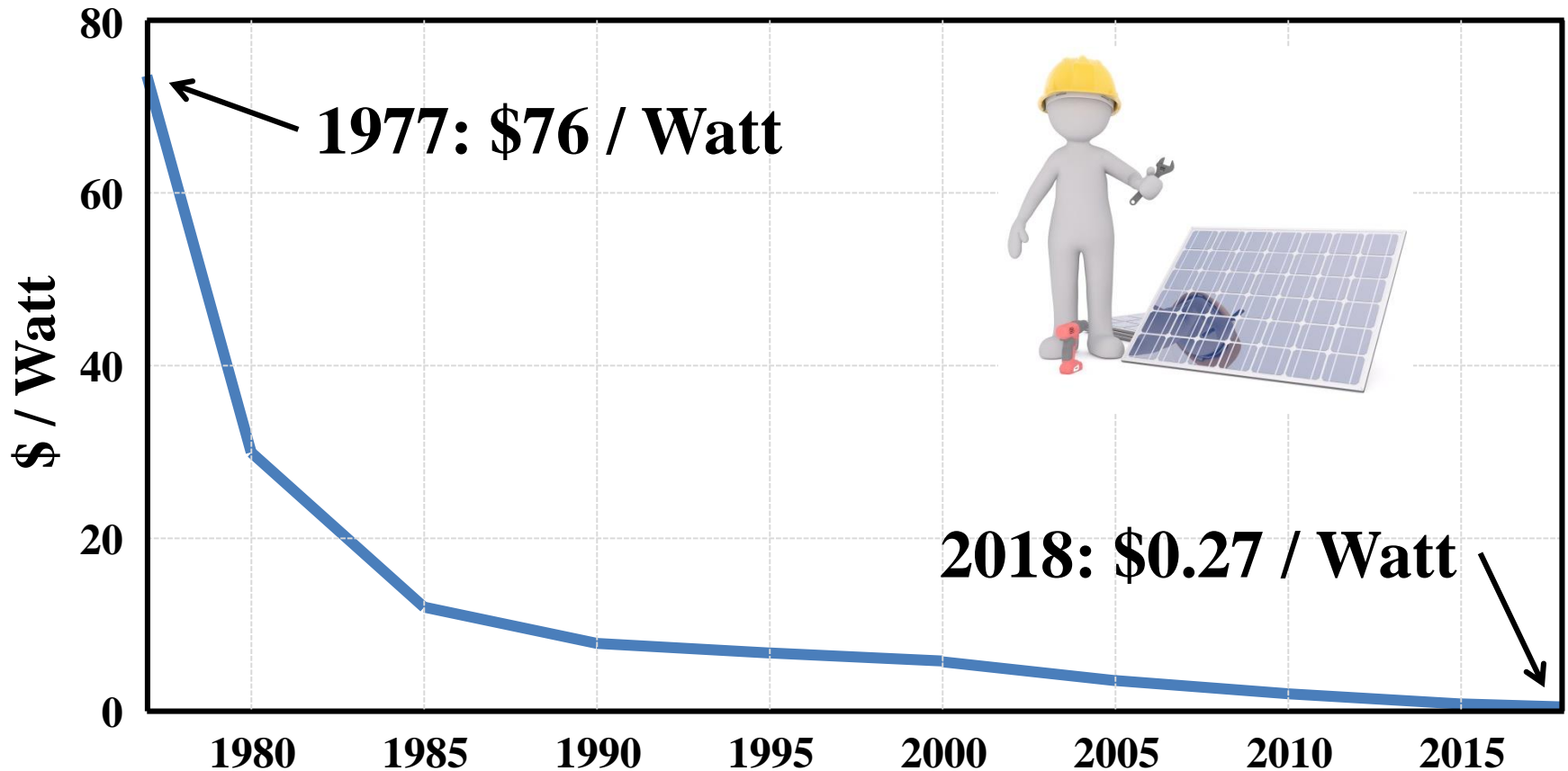
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# Technology: Solar Photovoltaic

## Price History of Silicon PV Cells (2018 \$US per Watt)

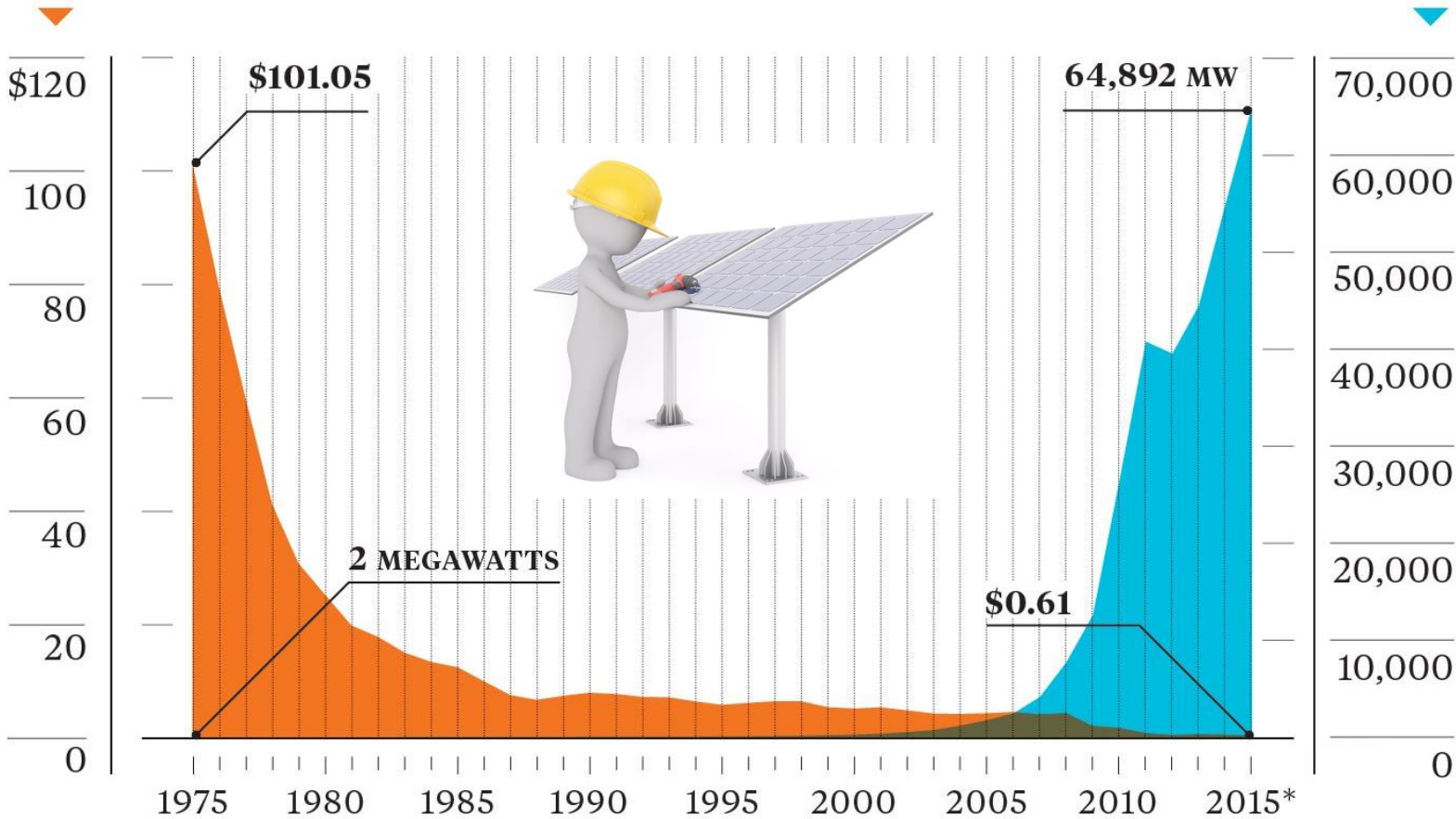


Source: Bloomberg New Energy Finance

# PV Costs Down; Installations Up

Price of a solar panel per watt

Annual global solar panel installations



Sources: Bloomberg, Earth Policy Institute

# BlueLake Wealth Advisors

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- 7 Advisors and 7 Support Staff
- Advisors average over 20 years in the industry
- Over \$600 million of assets under advisement
- Planning for individuals, families, businesses
- Retirement Plans for small/medium businesses



# Agenda

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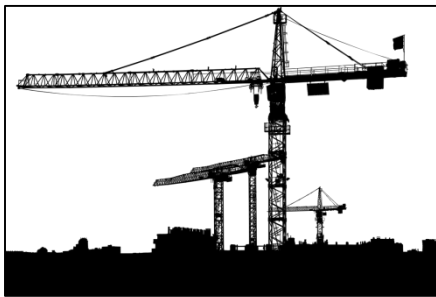
- Sustainability and Social Responsibility
- SRI, ESG and Impact Investing
- How to Invest
  - Fixed Income
  - Equity
  - Community Development
- Investment Returns
- Summary



# Sustainability

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- Meeting the needs of the present without compromising the ability of future generations to meet their own needs
- Society faces **competition** between
  - Economic Growth Objectives, and
  - Sustainability Requirements



Definition from Commission on Environment and Development

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# Connecting Our Values to the World?

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Some of the many terms used:

- Sustainable
- Socially conscious
- Socially responsible
- Ethical
- Green
- Mission-related
- Impact
- Triple Bottom Line





# Corporate Social Responsibility Surveys

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- More than half of global consumers would **pay more for products and services** from companies committed to positive social and environmental impact.
- Two thirds said they would **prefer to work** for a socially responsible company.
- 81% of millennials expected their preferred companies to **make public declarations** of corporate citizenship.

Source: Nielsen 2014 Global Survey of Corporate Social Responsibility, 2015 Global Corporate Sustainability Report

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# Your Money / Your Values

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- Whatever you do with your money, it has an impact



- How can I align my environmental views and personal values with my investment decisions?



# From SRI to ESG

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- Socially Responsible Investing
  - Based on ethical and moral criteria
  - Mostly **negative screens**, such as not investing in alcohol, tobacco, firearms, nuclear power, etc.
- Environmental, Social, Governance Investing
  - Based on the assumption that **ESG factors have financial relevance**
  - No companies omitted from consideration
  - Companies are scored according to their accomplishments in key areas

Definitions from JAG Capital Management (<https://jagcapm.com/>)

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# Examples of ESG Issues

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## Environmental

- Climate change and carbon emissions
- Air and water pollution
- Energy efficiency
- Waste management
- Water scarcity
- Biodiversity and deforestation

## Social

- Gender and diversity policies
- Human rights
- Labor standards
- Employee engagement
- Customer satisfaction
- Community relations

## Governance

- Board composition
- Executive compensation
- Audit committee structure
- Bribery and corruption policies
- Lobbying activities
- Political contributions



Source: CFA Institute

# United Nations' Sustainable Development Goals

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- “The world's best plan to build a better world for people and our planet by 2030.”
- Each of the 17 SDGs has targets that require some sort of financial investment



- Adopted by all UN Member States in 2015.

Source: <https://www.un.org/sustainabledevelopment/>

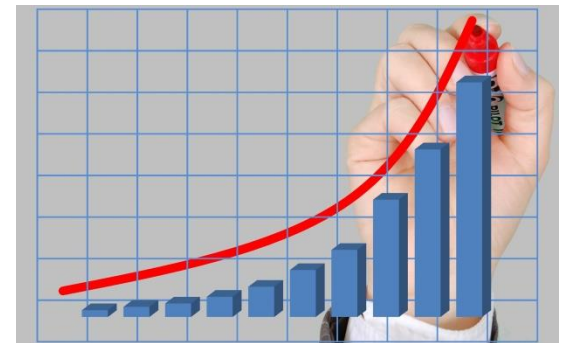
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# 10 Reasons ESG Investing Is Growing

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1. Good governance is systemically important.
2. Public-private partnerships are expanding.
3. Climate change is a reality.
4. Energy sources are shifting.
5. Technology is changing what we demand and how we consume.
6. Social media is driving convergence in social norms.
7. We are living longer.
8. Demographics are changing.
9. Regulation is providing tailwinds.
10. Value chains are global.

Source: PIMCO



# Impact Investing

- Go beyond measuring investments by risk, return and ESG factors.
- Evidence that investments generate an impact.



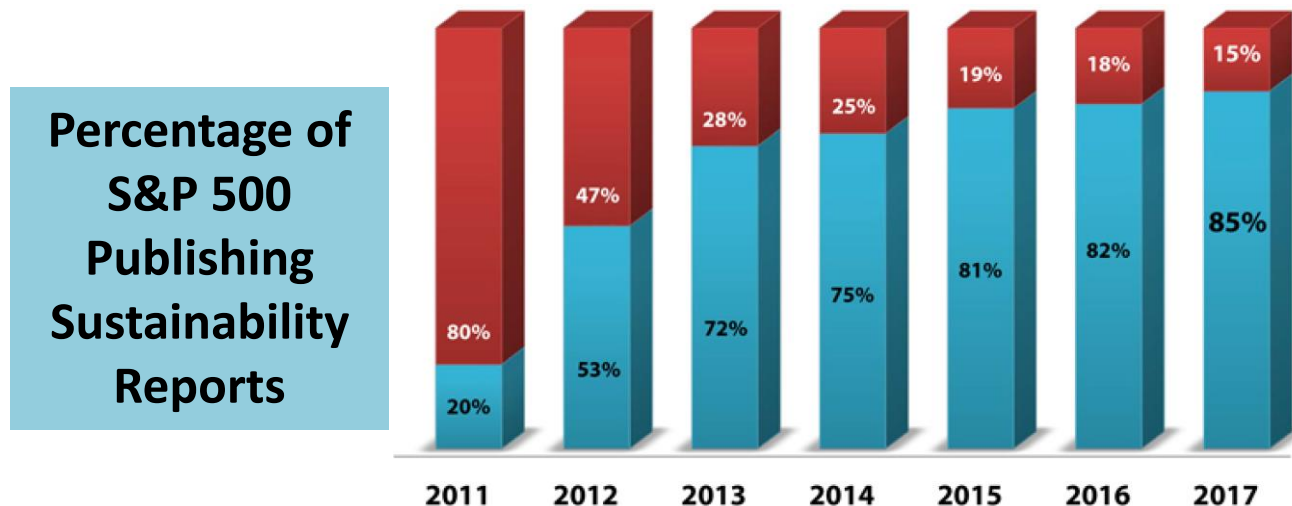
- Financial returns alone are not satisfactory

Source: BNP Paribas

# So, How Do I Do ESG Investing?

You could do your own research

- 85% of S&P 500 publish Sustainability Reports



*But difficult to evaluate more than a few companies on an ongoing basis*




Source: Governance & Accountability (G&A) Institute, Inc.



# How To Deal With So Much Data?

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Companies collect and analyze the data:

- Bloomberg ESG Data 
  - On more than 11,500 companies in 83 countries
- Trucost 
  - Performance on the UN SDGs
- Sustainalytics 
  - Carbon-risk rating

*But their output is only available to subscribers*

# Get Help from the Professionals

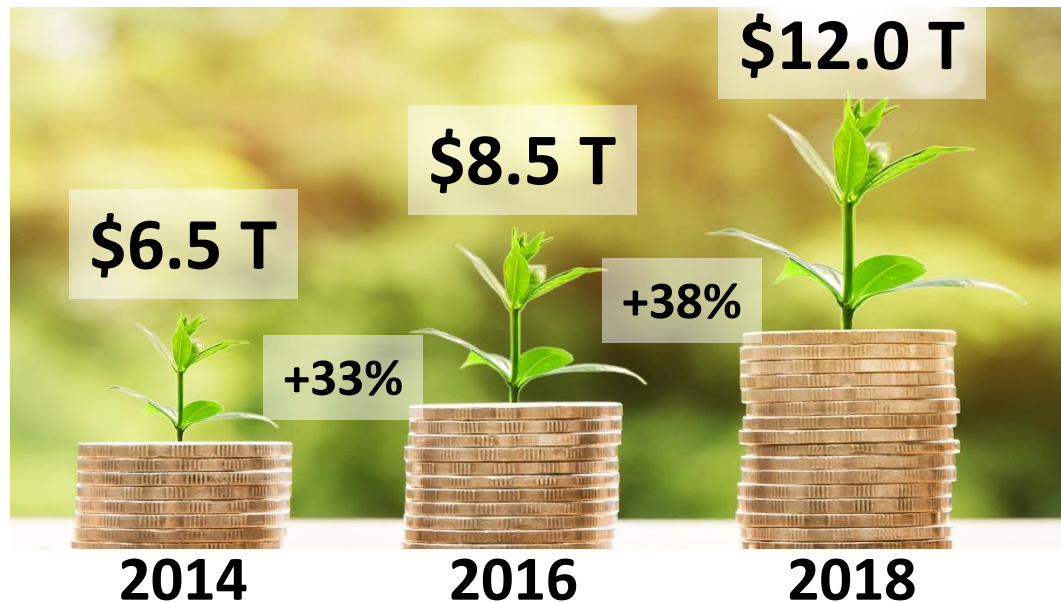
- Look to Investment Managers
  - Mutual funds and ETFs
- Managers use the data to help select securities



Bloomberg ESG Terminal

# ESG Funds

- About 351 mutual fund and ETF prospectuses include ESG or sustainable investing criteria\*
- US assets managed using ESG strategies\*\*



Sources: \*Morningstar 2019

\*\*US SIF (The Forum for Responsible and Sustainable Investment)

# Active and/or Passive Management

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## Active

- Professional managers
- Use expectations of performance
- Choose timing and weighting



## Passive

- Rules that don't change
- Rules determine
  - which companies
  - how much
- Mirror performance of an index



# Fixed Income – Green Bonds

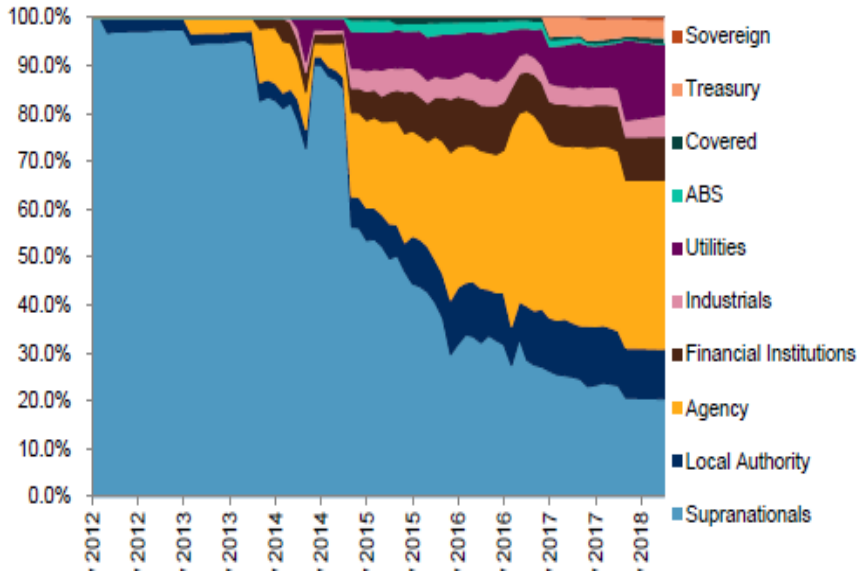
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- Fund projects that have positive environmental or climate benefits
- First Green Bonds were issued in 2007 by the European Investment Bank
- Through 2013, Green Bonds primarily issued by development banks, such as the World Bank and African and Asian development banks.
- Corporates, banks, and municipalities are increasingly issuing Green Bonds.



# The Green Bond Market

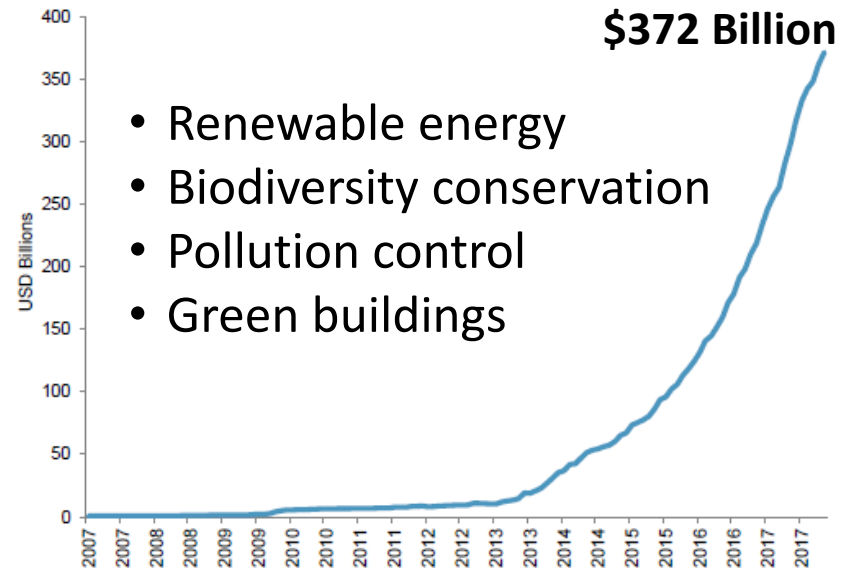
## Issuer Types in the S&P Green Bond Select Index



2012

2018

## Green Bond Market Size



2007

2017

- Renewable energy
- Biodiversity conservation
- Pollution control
- Green buildings

Source: S&P Dow Jones Indices, Bloomberg and CBI

# Climate Bonds Initiative

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- An international organization working to mobilize the \$100 trillion bond market for climate change solutions



- “We are looking for investment-grade returns that also address climate change.”
  - Jack Ehnes, *CEO California Teachers Retirement System*

# Investing in Green Bonds

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- Mutual funds & ETFs based on indexes such as
  - S&P Green Bond Select Index
  - Bloomberg MSCI Barclays Green Bond Index
  - ChinaBond China Green Bond Index
- Actively managed mutual funds
  - Select specific securities within the global green bond market based on fundamental analysis
  - Create financial returns and sustainable outcomes





# ESG Equity Investing - Passive

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- Mutual funds and ETFs based on ESG indexes, such as by:
  - Geographic Markets
    - iSTOXX® North America ESG Select 30 Index
    - Dow Jones Sustainability Europe Index
  - Company Size
    - MSCI USA Small Cap Extended ESG Focus Index
  - Industry
    - S&P Global Clean Energy Index
    - S&P Global Water Index
- Most major fund families now have ESG funds

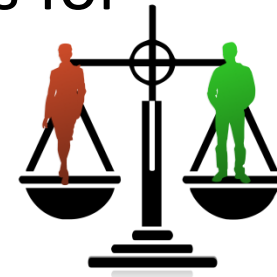


# Examples: Actively Managed ESG Objectives

- No businesses detrimental to the **UN SDGs**



- Invest in the highest-rated companies for **gender diversity** on boards and in executive management




- **Low carbon** risk
- Companies provide **good workplaces** for employees



- Screen for compliance with **religious teachings**



# Evaluating Funds on ESG Parameters

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- A. Look at goals and methods stated in prospectuses of ESG Funds
- B. Composite of company scores within the fund; e.g. Morningstar
  - Morningstar Sustainability Ratings: 1 to 5 Globes
    - Portfolio ESG Score 
    - Portfolio Controversy Score
  - Morningstar Portfolio Carbon Risk Score
  - Morningstar Low Carbon Designation

# Returns on ESG Investing

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- The Forum for Sustainable and Responsible Investment 
  - “The evidence is clear that sustainable and responsible investors **do not have to pay** more to align their investments with their values, or to avoid companies with poor environmental, social or governance practices.”
- Morningstar 
  - Examined 25 studies
  - **No performance penalty** due to sustainable investing.

Source: US SIF - [www.ussif.org/performance](http://www.ussif.org/performance)

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# Analysis of ESG and Company Values

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- Researchers at Oxford analyzed nearly 200 studies, reports and articles on sustainability and found that at the firm level:
  - Sound sustainability standards **lowers companies' cost of capital.**
  - Solid ESG practices result in **better operational performance.**
  - **Stock price performance is positively influenced** by good sustainability practices.

Gordon Clark, Andreas Feiner, and Michael Viehs, 2014. "How Sustainability Can Drive Financial Outperformance."

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# An ESG Investing Option – Get Local

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## Community Development Funds

- Federal Funds + Private Sector Capital
- Four types of Community Development Fund Institutions (CDFI):
  - banks,
  - credit unions,
  - loan funds, and
  - venture capital funds
- Invest in Community Development Loan Funds



# You Can Invest According to Your Values

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## Key Points to Consider

**Identify ESG issues  
important to *you***

Have clear ESG objectives

**Diversify**

Equity / Fixed Income  
US / International  
Variety of Industries

**Don't try to “do it all”**

It would be great to:

- align your investments with your morals, while
- still outperforming financially with reduced risk, and
- changing the world

But, that isn't practical, so ***prioritize***

# For Additional Information

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