Financial
Health Series

Investing in Social Good

Financial Advisor Beth Norman of RBC Wealth Management explains how you can invest based on your social and environmental values.

Consumers often speak with their dollars. Some focus on purchasing organic food or sustainable clothing brands. Others try to shop locally or support companies that have a history of paying employees a fair wage.

This idea can be extended to your investment portfolio through responsible investing. Simply put, the goal is to do "well" financially while doing "good" and contributing to a more sustainable society.

One of the most popular forms of responsible investing is ESG – an Environmental, Social and Governance criteria that is used to analyze investments beyond profit-making.

In other words, when you buy stock in a company, the power of active ownership can help create long-lasting change on a variety of issues, such as diversity, environmental protection and human rights. Investors have a seat at the table to collaborate with and influence policymakers.

Let's break down each piece of ESG.

Environmental criteria can include things like the energy footprint of a company, waste management, the sustainability of transportation of goods, water supply issues or climate change strategy.

Social factors include things like consumer rights, labor conditions and the health and safety of all stakeholders – including employees, customers and communities where companies are located. Right now, many companies are laser-focused on their social impact. This could mean improving practices around employee diversity and inclusion and rethinking employee health and safety policies.

Governance refers to how a company is managed from the top down. How diverse is the board of directors? How is executive compensation structured, and does it incentivize long-term, positive policies? Are there any conflicts of interest that need to be addressed?

If you want to start the process of aligning your investments with your personal values, there are a number of mutual funds and exchange traded funds (ETFs) that are managed with ESG criteria in mind. If you look up a fund on the company's website and it doesn't state that it is managed with an ESG mandate, then you can assume it probably isn't.

ESG isn't just about buying clean energy companies and electric cars. It's about investing in many different areas of the economy with the companies that are the best actors on ESG factors in that industry. If you are interested in building an investment plan that reflects your personal values or incorporates ESG factors, you can certainly research your existing funds or speak with a financial advisor that has expertise in socially responsible investing.

Due diligence processes do not assure a profit or protect against loss. Like any type of investing, ESG investing involves risks, including possible loss of principal.

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