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How to Screen ESG Investments

The "bad old days" of investing looked at one factor above all—the ability of a company to return a profit for the shareholders, regardless of how many necks they had to step on or how many hectares of rainforest they had to burn to generate those profits.

Faced with the consequent recessions, bailouts, and looming climate disasters, many investors have taken an "enough-is-enough" attitude toward short-term opportunism and instead focused on long-term sustainability. Proponents of this investing trend have adopted the acronym ESG to signify their attention to "environmental, social, and corporate governance."

> **We take a positive view of ESG investing as a socially-conscious way of re-aligning capitalism with the common good, encouraging companies to build policies for sustainable growth rather than taking high-flying risks to move the stock price.**

So how do we, as investors and financial advisors, screen investment opportunities for ESG sustainability?

Environmental

The "E" in ESG means that we must take into account the company's impact on the earth. Criteria to consider include:

- Carbon footprint from pollution and greenhouse gas emissions.
- Plans to reduce emissions, and the transparency of those plans.
- Use of renewable energy, like wind and solar power.
- Water usage concerns, like conservation, waste disposal, and overfishing.
- Use of recycling and sustainable waste disposal.
- Policies, plans, and disclosures to address human impact on climate change.
- Green products.
- Green infrastructure.
- Relationship with environmental agencies like the EPA.

Neutral watchdog groups like the Global Reporting Initiative (GRI) and Principles for Responsible Investing (PRI) produce reports on a company's environmental sustainability. We review available reports to screen for ESG compatibility.

Social

The "S" in ESG means that investors must consider the social impact of the operations of the business. "Social" responsibility refers to every aspect of operations that touches its relationships with people—the employees, the suppliers, the vendors, the community at large. Criteria to consider include:

- Employee pay, benefits, and perks.
- Commitment to employee training and development.
- Employee turnover.
- Ethical supply chains and sourcing, free of conflict and abusive labor practices.
- HR safety policies, including sexual harassment policies.
- Diversity and inclusion in advancement and hiring.
- History of consumer protection, including response to any lawsuits or complaints.
- Public stance on social issues.
- Mission statement or higher purpose.

Forbes and *Fortune* regularly rank the best companies to work for, while Glassdoor.com can be a valuable source of employee feedback. We review rankings and employee feedback to ascertain a stock's ESG compatibility.

Corporate

The "G" in ESG mandates that ESG investors consider the corporate governance of the company—the culture created by the board of directors and company oversight. Criteria to consider include:

- Executive compensation, perks, and bonuses.
- Compensation tied to metrics for long-term growth, not metrics for short-term earnings.
- Golden parachutes (bonuses paid to executives upon exit).
- Board of Director compensation.
- Lack of conflicts of interest for the board of directors.
- Whether or not the board of directors is classified.
- Proxy access.
- Separated roles of Board Chairperson and CEO.
- Diverse Board of Directors.
- Directors elected by majority vote rather than plurality vote.
- Transparent shareholder communications.
- Relationship with the SEC and other regulatory bodies.

Proxy statements filed with the SEC provide an illuminating window into corporate governance. We review the proxy reports of companies to screen for ESG compatibility.