

### Investors Value Fiduciary Standard

Many investors don't understand all the nuances of the fiduciary standard, Jefferson National says, but clients know the standard requires an advisor to serve their best interests and they would stop using an advisor who ceases to be a fiduciary.

Source: Jefferson National

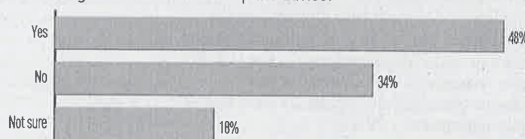
### Reasons for choosing an advisor

Percentage of investors who cite each as a top-three factor



### If their advisor ceases to be a fiduciary

Percentage of clients who'd drop the advisor



# FINANCIAL ADVISOR BRIEFING

## What To Do When Do-Gooders Pop Up

Advisors find ways to help clients with socially responsible investing

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FOR INVESTOR'S BUSINESS DAILY

For decades, a subset of investors have embraced socially responsible investing. That group grows larger by the day.

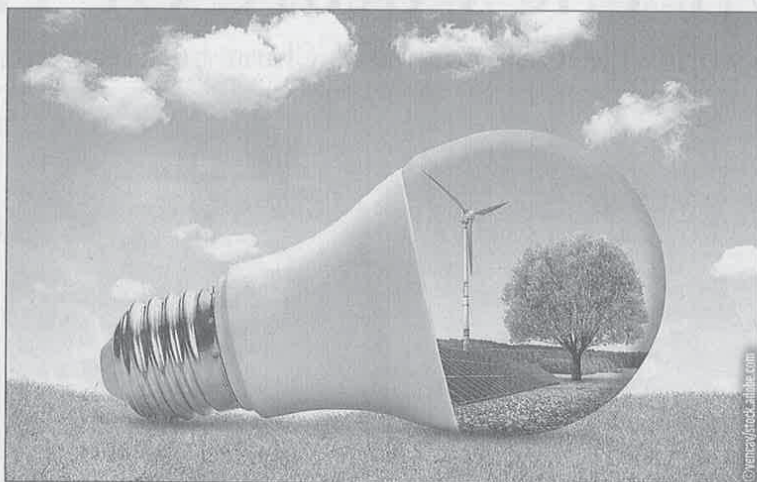
As advisors field more inquiries about SRI (also called impact investing), they are offering more specialized guidance and knowledge. Some financial planners carve out a niche as experts in this area.

When clients want to invest in companies that are aligned with their values, advisors often respond with enthusiasm. Even for those planners who lack a deep grounding in what's also known as environmental, social and governance (ESG) investing, they can suggest an ever-expanding range of products.

"About 10% to 20% of our clients raise SRI with us," said Patrick Stark, a certified financial planner in Newport Beach, Calif. "We respond by saying, 'We have options for you.' There's no shortage of these types of funds."

As interest swells in SRI, dollars follow. Total U.S.-based assets under management that fall under the ESG umbrella hit \$8.72 trillion in 2016, up 33% since 2014, according to the Forum for Sustainable and Responsible Investment.

When educating clients about SRI, Stark warns that the results might "slightly underperform" a portfolio that includes so-called sin stocks. These companies sell alcohol, tobacco, gambling and other



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products or services that some deem unethical or otherwise objectionable.

Despite Stark's warning, about half his clients remain adamant about sticking to stocks that pass SRI screens. And he accommodates them, often by proposing SRI-oriented mutual funds from Vanguard or Dimensional Fund Advisors.

"There have been lots of studies of SRI funds and most conclude SRI returns are slightly lower," Stark said. "But the results are all over the map," and some research indicates investors need not sacrifice performance when seeking a portfolio that reflects their values.

### Define Your Terms

While today's clients may express more interest in SRI, the concept is hardly new. One of the first SRI indexes debuted in 1990; now

called the MSCI KLD 400 Social Index, it contains stocks of 400 companies with high environmental, social and governance ratings.

Since 1990, the MSCI KLD 400 Social Index average annual return of 8.4% has exceeded the S&P 500 index return of 7.6%.

The push for SRI has even started to carry over into bonds. In recent weeks, some portfolio managers who hold Venezuelan bonds are rethinking their investments as the country's government limits imports of food and medicine for its citizens while making debt payments.

Investors' heightened awareness of these issues has led advisors to beef up their understanding of what constitutes SRI. Values-based investing means different things to different people.

"There's no one definition of so-

cially responsible investing," said John Burke, a certified financial planner in Iselin, N.J. He cites social investing pioneer Amy Domini's seven-point framework for identifying socially responsible investments: environment, human rights, consumer health and safety, local and national communities, diversity, harmful and addictive products, and fossil-fuel owners and producers.

"When I ask clients to define what they mean by SRI, they usually reply with some of the seven areas that Amy Domini identified, like tobacco and weapons manufacturers," Burke said. "Then we exclude individual stocks in those areas."

### No Preaching

Like Stark, Burke does not want to proselytize. Instead, he seeks to

fulfill the client's wishes and build a solid relationship based on trust and responsiveness.

"I don't impose my values on my clients," Burke said. "It's not like I'm always bringing up (SRI)."

Some clients express a particularly keen interest in aligning their investments with their values. They may prefer to construct their own screens with Burke's help.

"For those who are more serious about it, we've created a portfolio of stocks and had the client review our portfolio," Burke said. "They'll in turn screen what we've listed" and perhaps tweak the selections.

Customizing a portfolio under these circumstances can get tricky. Some screening criteria are straightforward, such as avoiding tobacco companies.

"But other categories can get more difficult to define, such as a company's hiring practices and whether those practices meet certain standards," Burke said.

The most engaged clients may harbor passionate views about what's acceptable and unacceptable. This can test an advisor's knowledge of the investment landscape, as funds focus on everything from companies with LGBT-friendly policies to those that appeal to Catholics, Muslims and Presbyterians.

SRI's emergence as a mainstream strategy has even influenced the offerings of robo-advisors. Large financial services firms such as TIAA have rolled out robo-platforms that target millennials who prefer socially responsible investments, and other companies such as Morgan Stanley<sup>MS</sup> plan to launch similar vehicles in the coming months.

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