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Comprehensive Financial Planning and Wealth Management

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## Socially Responsible Investing: Feeling Good about Good Earnings

Presented by:

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# Outline

- What does SRI Mean?
- Types of Responsible Investing
- Timeline of SRI
- Who wants SRI?
- Practical applications for SRI
- Conclusion
- Q&A

# What comes to mind when you think about socially responsible investing (SRI)?



# ESG defined: Environmental, social & Governance



## ENVIRONMENTAL

- Climate change
- Natural resource usage, including water
- Waste management
- Deforestation



## SOCIAL

- Employee relations
- Diversity
- Supply chain management
- Health and safety



## GOVERNANCE

- Board quality
- Executive compensation
- Public policy
- Business ethics (bribery and corruption)

# Timeline of SRI



**1970s**

- Investors align around key social concerns (i.e. South Africa, Vietnam War)
- Pioneering institutions are created (IRRC, ICCR)



**1980s**

- Dedicated industry networks are formed (Ceres, USSIF)
- Increased emphasis on corporate governance and the environment



**1990s**

- First social indices launched and universe of Socially Responsible Investing (SRI) funds expands
- Investors advance business case for sustainability and reporting (i.e. GRI)



**2000s**

- Investor convergence on climate issues
- Global investor networks formed (i.e. PRI, Global Impact Investing Network)



**2010s**

- RI approaches expand across asset classes
- “Mainstreaming” of ESG data and reporting
- Greater focus on outcomes (i.e. UN Sustainable Development Goals)



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# Who cares about SRI?

## Demand from Individual Investors



"I want my investments to make a positive impact on society."



ALL  
GROUPS  
AGREE



**I am interested in ESG  
investing without sacrificing  
financial performance**

90% millennials vs. 73% other generations;  
Second Annual Practice Management Study,  
Responsible Investment: Advisor and investor  
interest is rising. However old myths still exist.,  
TIAA Global Asset Management, 2016



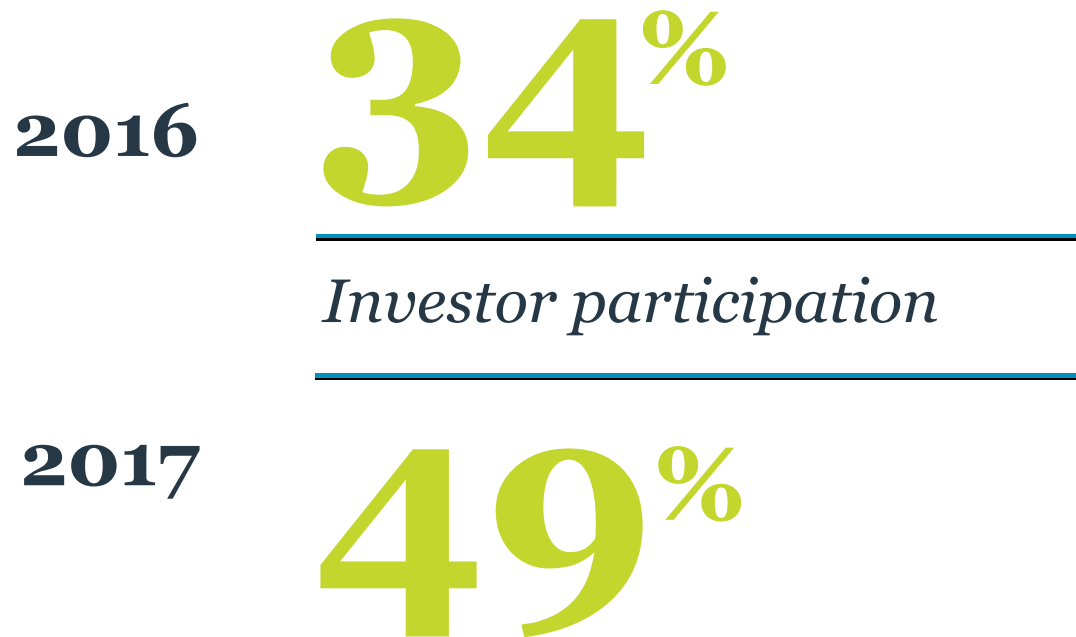
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# No longer a niche

	Total Investors	Millennials	Non-Millennials
I tend to <b>recycle everyday</b>	<b>88%</b>	<b>93%</b>	<b>86%</b>
I'd like to work for an employer that makes a positive <b>social impact</b> on the world	<b>76%</b>	<b>91%</b>	<b>70%</b>
I'd like to work for an employer that makes a positive <b>environmental impact</b> on the world	<b>76%</b>	<b>92%</b>	<b>70%</b>
I prefer to shop for brands that have <b>environmentally sustainable</b> business practices	<b>72%</b>	<b>90%</b>	<b>64%</b>

# Increased Participation



**In one year a 15  
percentage-point  
increase in  
participation**

According to Nuveen Fund's Third Annual Responsible Investing Survey



# US Asset Growth

**\$8.72<sub>T</sub>**

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*Assets including ESG approaches within the US as of 2016<sup>1</sup>*

**133%**

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*Growth rate of aligned RI assets in the US, 2012-2016<sup>2</sup>*

**1 of 5**

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*Dollars of professionally managed investments in the US are aligned with an RI approach<sup>1</sup>*

1. According to the 2016 USSIF Report on US sustainable, Responsible and impact Investing Trends Report

# Performance

*Index average annual returns (as of 12/31/2016)*

■ Top performer ■ Bottom performer

	1 Yr	3 Yr	5 Yr	10 Yr
MSCI USA IMI ESG Leaders	12.92%	7.53%	13.64%	6.74%
MSCI KLD 400 Social	10.87%	8.03%	14.19%	6.97%
Calvert U.S. Large Cap Core Responsible	11.03%	8.93%	15.66%	7.39%
FTSE4Good US	12.67%	10.68%	16.28%	7.05%
DJSI U.S.	14.34%	8.63%	13.00%	5.96%
Range top/bottom performer	3.47%	3.15%	3.28%	1.43%
S&P 500	11.91%	8.84%	14.60%	6.92%
Russell 3000	12.68%	8.40%	14.61%	7.05%

Based on daily returns for periods ending 12/31/2016.

Sources: FactSet, Morningstar, MSCI, and TIAA

# Risk Reduction

*Standard deviation and Sharpe ratios: RI indexes and broad market benchmarks*

Index	Average Annualized Standard Deviation (%)	Spread*** vs. benchmark for 10-Yr period (%)		Average Annual Sharpe ratio
	10 Yr	Avg.	Max.	10 Yr
Calvert U.S. Large Cap Core Responsible*	17.55	0.10	1.61	0.70
DJSI U.S.**	16.21	0.72	2.87	0.63
FTSE4Good US**	17.20	0.25	2.50	0.73
MSCI KLD 400 Social**	16.75	0.20	1.13	0.86
MSCI USA IMI ESG Leaders*	17.40	0.05	0.78	0.66
RI Index average	17.02	0.26	1.78	0.69
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S&P 500	16.94			0.71
Russell 3000	17.45			0.69

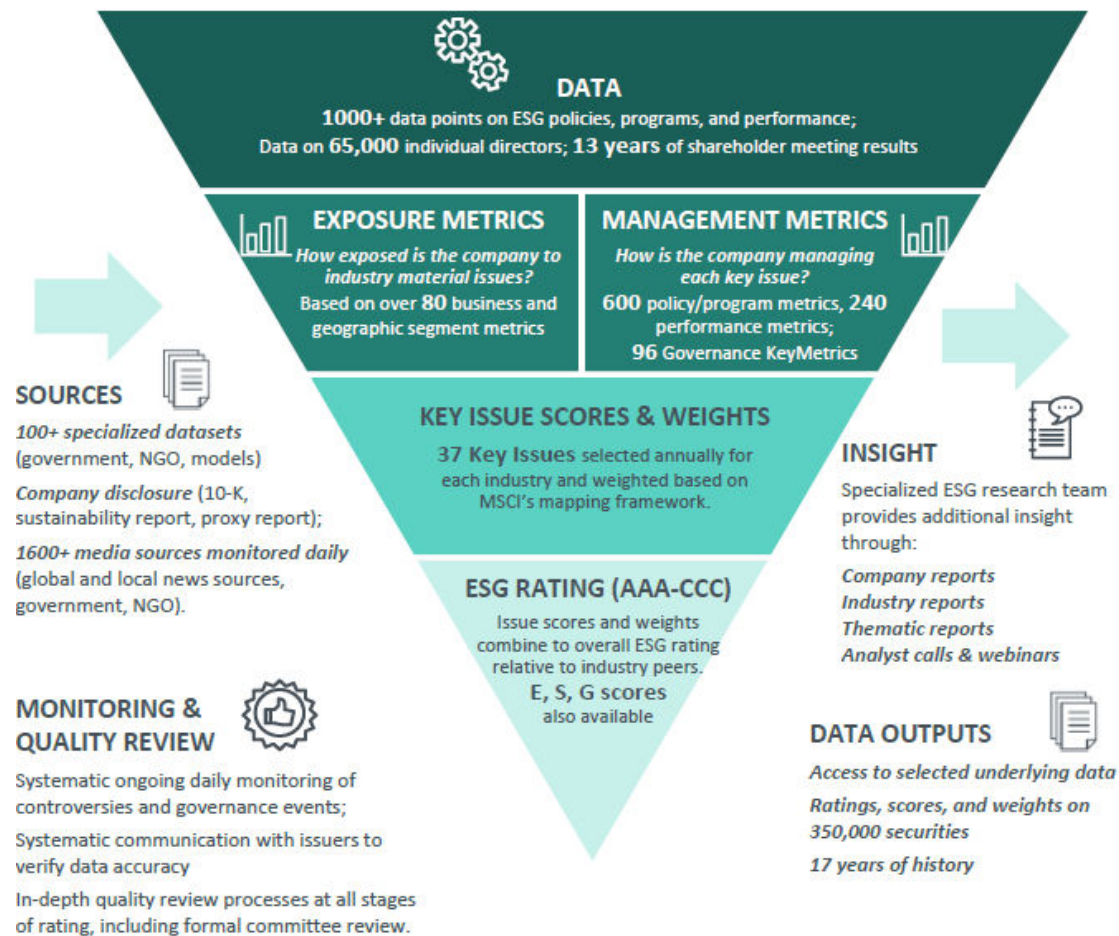
\* Benchmark: Russell 3000;

\*\* Benchmark: S&P 500. Based on weekly returns for 10-year period through 12/30/2016;

\*\*\* Spread equals index value minus benchmark value. Spread averages and maximums are absolute values.

Sources: FactSet, Morningstar, MSCI, and TIAA

# ESG Score Methodology



Source: MSCI ESG Ratings Methodology Executive Summary

# ESG Score

Letter Rating	Final Industry-Adjusted Company Score
AAA	8.6* - 10.0
AA	7.1 – 8.6
A	5.7 – 7.1
BBB	4.3 – 5.7
BB	2.9 – 4.3
B	1.4 – 2.9
CCC	0.0 – 1.4

Source: MSCI ESG Ratings Methodology Executive Summary

# Case Study

## Client Profile:

Male

37 years old

Married/1 Child

Physician

## Exclusions Required:

- Non-vegetarian food companies (including eggs)
- Honey companies
- Restaurants
- Hotels
- Dairy industry
- Clothing/textile companies using Leather
- Companies making feather/fur products
- General consumer products companies using animal products or testing (shampoo, gel, toothpaste)
- Shoe companies using Leather
- Fishing/Hunting industry
- Furniture companies making leather products
- Entertainment companies/theme parks & circus using animals (such as sea world/circus/zoos)
- Pharmaceutical
- Biotech (which conduct animal testing)
- Tobacco
- Alcohol
- Casinos
- Weapons/Guns
- Coal mining companies
- Pesticides/pest control chemical companies
- General retailers
- Grocery chains
- Car companies using leather seats
- Coal mining companies
- Oil & Gas companies (prefer renewables & clean energy companies if possible)
- Car rental business
- For Companies with Mixed Assets (Such as GE) which operate in multiple sectors: Apply 80/20 rule when they are clearly segregated by industry (It's ok to have them as long as percent revenue from must avoid segment remains below 20% of the overall revenue)



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# Conclusion

- SRI is subjective in the minds of many.
- Adds value not only altruistically, but also intrinsically.
- SRI demand and inclusion is on the rise.
- Investing with your conscience.

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*Investments in socially responsible funds are subject to the risk that because social criteria excludes securities of certain issuers for non-financial reasons, investors may forgo some market opportunities available to those that don't use these criteria. Past performance does not guarantee future results.*