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summaries

SIGMA INVESTMENT COUNSELORS

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UNDERSTANDING ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) INVESTING

In recent years, many investors have chosen to invest in companies that are deemed to be socially responsible in the manner in which they conduct their businesses. At the risk of over-simplification, socially conscious investors want to invest in companies that share common values involving the environment, social behavior and corporate governance.

In principle, investors should hold companies accountable for the manner in which they conduct their business. Corporations should follow the law, behave in an ethical manner, treat their employees fairly, be transparent in how they conduct their business, etc. However, when delving into the world of ESG investing, there are no standards that define what is acceptable. When scoring a company's track record, the criteria cannot be quantified, are arbitrary and relative.

To be clear, some investors wish to steer clear of funds that own stocks in specific industries. One example that often comes to mind is the desire to avoid "sin" stocks such as alcohol, tobacco, gambling, sex-related industries and weapons manufacturers. This mandate comes from the investor, not the management team of the brokerage company. Stocks within an ESG Fund are determined by the fund manager, not the investor. This distinction is worth noting. ESG funds are not passively managed.

The screening process to score companies also varies from one fund manager to the next. Of course, all publicly traded companies should ban sexual misconduct, provide a safe workplace, pay fair wages, and ban discrimination in their hiring practices. However, must Home Depot's wage

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structure match Lowes? How does one compare the carbon footprint of Exxon versus Chevron? How do you decide the relative importance of environment issues versus social concerns versus corporate governance? Per the governance pillar, one large money manager favors companies where the CEO is not the Chairman of the Board. And yet, there are many examples where highly successful corporations allow one individual to play both roles.

A quote from one large money manager reads as follows:

"Our investment conviction is that climate risk is investment risk, and that integrating climate and sustainable considerations into investment processes can help investors build more resilient portfolios and achieve better long-term adjusted returns." And yet, in a recent op-ed article in the Wall Street Journal, ESG funds, on average, have underperformed "neutral" companies. Neutral companies are firms that take no political or social stance on six social/political issues used in the study. We are also concerned that some seemingly passive fund managers are becoming activists, promoting personal agendas that may not be shared by their shareholders.

For these reasons, Sigma has yet to embrace the ESG movement. We do embrace the spirit that management has a responsibility to its many stakeholders, including the environment, society at large, their customers, employees and shareholders. But it is our rsponsibility to provide competitive performance, sound advice, exceptional customer service and earn the trust and confidence for those whom we serve.

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Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives