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Part 6: Taking action to own SRI/ESG funds in your investment accounts

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If you've read this far in this SRI/ESG investing series, you must be compelled to emphasize this theme in your investment accounts at some level.

Here is a framework to get started:

1. Determine how important SRI/ESG considerations are to you.
Some investors are comfortable maintaining a more traditional mix of investments and simply want to include an SRI/ESG fund at the margins or to more prominently feature a single issue in their portfolio (e.g. clean energy).

Others want the core, or perhaps their entire portfolio, to reflect SRI/ESG preferences. It requires more due diligence to build a well-rounded mix of investments that provide global diversification, tax efficiency, and an attractive risk/return profile. But this can be done.

2. Decide if there are any industries or companies that you definitely do not want to invest in.
If excluding certain companies that are objectionable to you is your preference, more evaluation of available mutual funds or exchange-traded funds will be required to confirm that the money manager's process is consistent with your preferences.

One challenge with SRI/ESG funds is that it can be difficult to meet a wide variety of people's individual preferences in a pooled investment vehicle. While most of this series has focused on professionally managed funds, if you have strict exclusions or exclusions that are non-standard compared to a majority of SRI/ESG investors, you may have to consider building a portfolio of individual stocks and bonds where you have more control over what you own.

3. Identify your preferred asset allocation.
Regardless of whether you utilize SRI/ESG investments or not, the starting place for portfolio construction should be the weight of stocks vs. bonds and cash in your portfolio. This decision on how conservative or aggressive to be has a lot to do with your personal tolerance of risk but should also be aligned with your spending goals, retirement income needs and other factors that influence the preferred investment mix.

When you have a targeted mix of assets – going beyond the stocks vs. bonds weight to determine U.S. vs. international, large company stocks or small, growth or value stocks, government or corporate bonds – then you can identify investment options that fit each role.

4. Investment selection.
As with more traditional investing, cost remains a significant influence in the performance outcome of your investment strategy. This is even more important with SRI/ESG investing where fund management fees are generally higher due to the extra screening and due diligence that is required of the money manager. These costs have come down for many funds as more money invested has created better economies of scale for money managers but SRI/ESG funds are generally still more expensive.

As referenced in Part 4 of this series, there are passively managed funds available to provide broad diversification at a low price point at the core of your portfolio. Historically, though, SRI/ESG investments have required more active management to implement. While the investment options in the SRI/ESG space are all intended to emphasize some form of contribution to the greater good of society, they go about it in different ways and with different results.

Some funds take far more risk in innovative industries or companies than others. Some funds focus only on well-established, globally prominent companies. There are bond funds that buy bonds of companies with high SRI/ESG scores from any industry. There are also bond funds that specifically buy green bonds used to support climate and or clean air/water projects.

Unfortunately, there are some mutual funds that have prohibitively high minimums for new investments or are not available on all brokerage platforms. Evaluating availability and fit will vary from one investor to the next.

5. Monitor, re-evaluate and rebalance.
Every investment portfolio is a living entity that changes form and characteristics over time. Especially in the emerging SRI/ESG landscape, new investment options become available frequently and ratings of companies evolve as they address sustainability and

other issues. As investment markets move forward in unpredictable patterns and you make contributions to or withdrawals from your accounts, you'll need to assess if the chosen investments remain the best fit for your needs (short-term and long-term).

Performance will always be an important point of evaluation. But for SRI/ESG investors, performance will always be evaluated in the context of their conviction to investing in a way that they feel is best aligned with their personal values.