Aligning Clients' Portfolios With Their Values

"Instead of saying 'I don't know how to handle this' or 'it's not worth looking at,' advisors can use sustainability data to serve their clients better."

–Bill Holliday, CFP,® AIO Financial

Fee-only financial planner Bill Holliday has a long-standing relationship with socially responsible investing (SRI). He works at AIO Financial, a practice with a focus on sustainable investing where he helps clients balance their personal values with their investing goals. Three-quarters of Holliday's clients come to him to find sustainable or socially responsible ways to invest.

What led you to focus on serving clients interested in sustainable and socially responsible investing?
My first exposure to socially responsible investing was when I was in the Peace Corps in Nicaragua, where I learned about micro-credit institutions. I actually came back to the U.S. and set up a micro-credit institution, called ProMex, in a town on the Mexican border using grants from USAID, Howard Buffett's foundation (who's Warren Buffett's son), and a few other organizations. After ProMex was running on its own, I looked for a practice to join where I could focus on this type of investing. I received my CFP certification and I've been working at AIO Financial ever since.

Do you see a lot of significant distinctions in the labels that exist for this type of investing, like sustainable investing, ethical investing, or ESG investing?
When people come in to our practice, most haven't heard the industry terms "socially responsible investing" or "ESG." Most people generally have just learned about the concept and have decided they'd like to participate in some degree of investing that lines up with their values.

How have your past experiences with ProMex inspired what you do now and your connections with your clients?
ProMex is locally run now, but that experience and the struggles we had help me understand similar projects. At AIO, we have a lot of clients interested in community investing—whether that means getting involved with micro-credit projects globally or with community banks in the U.S. My personal experiences have given me a perspective on what kind of realistic impact you can expect to make.

Why do people tend to hire you to focus on socially responsible investing? What do they want to achieve?
It varies quite a bit depending on the client. We tend to attract people who want to be consistent between their investments, their values, and the way they live their lives. They want to have an impact on the companies they invest in.

We have some clients who are frustrated with leaving it up to the government to address some of the issues they care about and want to try and make an impact themselves. We have clients concerned about climate change, corporate political contributions, executive compensation, the labor chain, workers' conditions, and so on. Socially responsible investing isn't the same thing for everyone we see. Some people only want to be a little bit involved and some people want their entire portfolio to reflect their idea of social responsibility. Some people just have one particular issue, and some people aren't really sure of exactly what they want—just that they want to make some positive impact.

What trends are you seeing in sustainable investing?
It seems to be growing faster than other aspects of the investment world. There are more investment options that are more competitive now, and there's much more information out there. As an investor, you can get very specific or you can find what rings true to you. I don't think that was possible even 10 years ago.

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How would you say your approach to serving investors who want sustainable investing options differs from other financial planners?
Like other financial planners, we look at a client's risk tolerance, their investment horizon, spending plans, retirement planning, and insurance. Then we get into setting up an investment policy. It's really just at the end that we have our clients fill out an SRI questionnaire so we can gauge the issues they're concerned with and the amount and type of involvement they want with them.

What tools do you use to find and research investments that might be appropriate for your clients?
It's a pretty inefficient process. We end up making a lot of phone calls. We use Morningstar's screening tools to find SRI funds that are performing well, then we're left to calling the fund companies to determine how much corporate engagement they're involved with—if they're voting their proxies or not, if they're coming up with shareholder resolutions, or if they've dedicated resources to corporate engagement. Alternative investments are similar—we read their prospectuses, but we end up making a lot of calls. Every year, we put what we learn into a free e-book so others can benefit from our legwork.

What are some of the current challenges clients and the financial planners who serve them face when they want to focus on sustainable investing?
For clients, I think it's that a lot of people just don't know what their options are. We've had a lot of clients come to us after they've been to other advisors who say, "Oh you're just going to get less performance, and it doesn't make any impact so it's not worth trying." I see a lot of people who want to be empowered to try and match their personal values with their investments.

Do you see a mix between values-based investors and people who want to try this approach as a long-term strategy?
It's a definitely a mix. For example, I often see people concerned with climate change who don't want to invest in fossil fuels. But we also have clients who think there might one day be legislation or a tax change that will hurt fossil fuel companies and they'd rather not have that risk in their portfolio.

How do you think our Sustainability Ratings might affect investor perceptions of what they can or should invest in?
It's another data point that can give our clients some comfort. The Morningstar Sustainability Rating for funds is still new, but it will help our clients be encouraged about what they're holding. It's just one more piece of information, and it's nice that it's easily accessible. The Sustainability Rating is a quick number I can present to them at meetings along with their holdings. If they don't feel comfortable with how their investments rate, we'll look a little deeper and find out what's going on.

I've talked to fund managers who don't want to label themselves as SRI because that can reduce their market, but they're screening on sustainability factors to filter out a lot of companies. I think it is interesting to see how different funds are rated for sustainability compared to how they market themselves. Some funds might be holding companies so that they can make changes in those companies. I think you can make a bigger impact sometimes through corporate engagement than by boycotting certain investments.

How can advisors and financial planners make a difference in their practice with sustainable investing?
It's a growing part of the investing landscape. Instead of saying "I don't know how to handle this" or "it's not worth looking at," advisors can use sustainability data to serve their clients better. I know a lot of our clients are really happy knowing what their investments are doing in the world.

About AIO Financial
AIO Financial is a fee-only financial planning firm that offers comprehensive financial planning services and specializes in socially responsible investing.

To find out more about sustainable investing and the Morningstar Sustainability Rating,™ visit global.morningstar.com/SustainableInvesting or follow us at #MstarESG