

Using ESG to tie values and performance together

The idea of tying personal values to the investment portfolio was brought to life for one couple whose adult daughter showed an interest in understanding the family's investment strategy. An environmental engineer and a business owner, the daughter wondered if her family was supporting companies that contributed to the rapidly worsening effects of climate change.

Indeed, it turned out that for decades the family's portfolio performed well based on fundamental financial criteria, but it was not constructed to consider environmental or social issues. Investments included major oil companies and other bad environmental actors. Perhaps more notable, unrepresented in the portfolio were companies that successfully, and profitably, provided solutions to the world's climate concerns.

The family came to Welch & Forbes to review investments and build a portfolio that could meet performance benchmarks and fulfill their daughter's vision.

Investing can be both a path to financial stability and a way to align your wealth with your values. Greater corporate transparency and access to more advanced research technology allow us to effectively view portfolios through the lens of Environmental, Social, and Governance (ESG) factors.

They were introduced to our ESG process, which uses a method to identify securities that meet the criteria for clients interested in sustainable investing. Aided by increasingly reliable and publicly available data, the team takes a nuanced approach that considers approximately 50 ESG metrics, including greenhouse gas emissions, environmental fines, employee diversity and independence of the Board of Directors.

Portfolio construction began with a conversation about the family's goals, focusing on the importance of a wide range of different ESG factors. Understanding their priorities, we were able to build a customized portfolio utilizing our process as follows.

- **Our Approved List of securities**: Approximately 150 companies that have the financial strength to be a component in our core portfolios.
- **Integration** of client values with proxy voting and materiality for financial impact
- **ESG top scorers**: up to 40 companies from the Approved List that demonstrate the top ESG scores in the family's areas of concern.

We followed with a presentation of the ESG Dashboard showing the intersection of their ESG priorities and their existing portfolio.

Our hands-on due diligence also gave us the opportunity to address one of the daughter's primary concerns: greenwashing. Given her career, she was frequently exposed to companies that marketed sustainable practices without actually taking measurable action to achieve targets.

Our team dug deeper into select opportunities to validate claims made by the companies, and the findings had a profound impact on the portfolio. In one instance, we discovered a company vastly overstated its commitment to greenhouse gas reduction and needed to be crossed off the list. In

another, we found an exciting investment with an innovative supply chain approach that went undetected by traditional ESG scoring systems.

The result was a tailored, 35-company portfolio with reporting that included ESG ratings across approximately 50 different categories. The parents were able to understand performance and sustainability at a high level, while the daughter could dive into the details.

Our process helped demonstrate that when values are shared, they can play an active role in portfolio construction. In the end, our process not only put this environmental engineer's mind at ease, it inspired her to enthusiastically engage with the family's wealth.

For more information on ESG at Welch & Forbes, contact Ed Sullivan, Vice President, at 617-557-9800.

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An ESG investment approach could impact investment performance as compared to a non-ESG approach. Further, the voting of proxies for securities held in the account are made in accordance with the Firm's ESG Proxy Voting policy. The portfolio used for the case study was not chosen based on performance.