



THOUGHTS FROM OUR CHAIRMAN

Our amazing earth. Most of us were raised to care about it. There is broad agreement on the necessity to be good custodians of the world around us, yet there appears to be little consensus about how to achieve that goal or how swift such efforts should be. One thing we are learning to understand is there is rarely a simple answer, and meaningful change is slow in coming.

In seeking to align their individual values with their investments investors now have environmental, social and political/governance issues that influence their deliberations and help form opinions about an investment's possible level of success in this world.

In this issue of As We See It my associate, James Powell, shares how we at Van Liew Trust include ESG in our investment process.

Alfred B. Van Liew

What is the Deal with ESG?

James M. Powell, CFA, CAIA

ESG (environmental, social, and governance) investing has garnered a lot of global attention over the past decade, although it has been a factor in asset management since the 1960s. What began as a small voice calling attention to social issues, such as apartheid in South Africa and an unwillingness to invest in big tobacco companies, has become a systemic factor with strong regulatory impact in the developed world. Some investors are passionate about these issues, while many choose not to pick sides in this increasingly polarized discussion. Regardless of whether or not individual investors actively take a stance, these factors are significantly influencing capital markets around the world.

ESG investing is a type of investing that considers factors beyond just financial performance when evaluating potential investments. It incorporates environmental, social, and governance (ESG) considerations into investment decisions, in the

belief that these factors can affect long-term financial performance. As an example, consider the large tobacco companies. Once held for their long-term growth prospects, these companies now return much of the cash they earn to investors in the form of dividends rather than investing in the future of an industry facing slower growth and legal issues.

The *environmental* aspect of ESG investing considers a company's impact on the environment and its efforts to reduce its carbon footprint, conserve natural resources, and reduce waste. The *social* aspect looks at a company's treatment of its employees, its customers, and its community. Finally, the *governance* aspect examines a company's management, board of directors, and overall governance structure.

To date, the European Union (EU) has taken the strongest regulatory stance in the Developed Markets. Under the Sustainable Finance Disclosure Regulation

(SFDR), EU asset managers must disclose how they consider ESG risks in their investment decisions. Similarly, the United States is currently considering such mandatory disclosures. At Van Liew Trust, we voluntarily post our ESG philosophy on our website¹.

ESG investing is an intensely individual decision. I use that word – intensely – because ESG means different things to different people. A brief search on the internet will lead you to some highly ranked ESG funds that invest in, or exclude, companies that may surprise you. Last year, a New York Times article² discussed the different philosophies between two large ESG-branded funds regarding military stocks and the conflict between Ukraine and Russia. Another article from Reuters³ considers the decision by S&P Global Ratings (formerly known as Standard & Poor’s) to exclude Tesla (TSLA), the leading electric vehicle producer, while including the oil refiner Phillips 66 (PSX) in the S&P 500 ESG Index.

ESG investing is big business for large financial institutions. A recent Wall Street Journal article⁴ pointed out that management fees for ESG funds are often significantly higher than index funds despite both owning very similar portfolios. There are now literally hundreds of ESG mutual funds and exchange traded funds (ETFs).

Investors who choose to take an active stance have several options. One is to invest in a portfolio of ESG-branded mutual funds and ETFs. This may work for investors who do not have strong opinions on what they own; they will essentially adopt the ESG philosophies of the funds regardless of the conflicts mentioned above.

However, those who do have strong opinions will want more control over their investments. Some investors may wish to exclude companies whose primary purpose is to produce fossil fuels or tobacco products

(an exclusionary approach). Others may wish to include specific companies that focus on sustainability issues (an inclusionary approach) in consideration of the products or services they provide. This is why I say the decision to use ESG factors is an intensely individual decision. Furthermore, the decision to incorporate ESG factors can produce returns that differ significantly from established benchmarks, such as the S&P 500 Index, especially over the short term.

At Van Liew Trust, we believe companies that have a positive impact on our society are often – but not always – good long-term investments. As a trust company first, we have made the conscious decision not to brand the company as an ESG manager. Our strength is in understanding our customers’ intent (which often spans generations), then constructing and managing individual portfolios to meet that intent. As part of our investment process, we seek companies using ESG principles and approaches and those adding value through sustainable practices. We use several well-established resources to assist in this effort, including Morningstar®, MSCI® and Refinitiv®. These resources supplement our financial due diligence efforts to find the best long-term investments for our customers’ portfolios. Please contact us if you would like to learn more.

¹ <https://www.vanliewtrust.com/equity-approach/>

² <https://www.nytimes.com/2022/03/04/business/military-stocks-russia-ukraine.html?searchResultPosition=1>

³ <https://www.reuters.com/business/sustainable-business/tesla-removed-sp-500-esg-index-autopilot-discrimination-concerns-2022-05-18/>

⁴ https://www.wsj.com/articles/esg-green-funds-cost-three-times-more-than-you-think-11675441245?st=hg83z4e9mfo3fke&reflink=desktopwebshare_permalink

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NEWPORT

Ask for James Powell

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