

Kiplinger ESG 20: Our Favorite Picks for ESG Investors

Doing good and making money are no contradiction with these 16 stocks and four funds that ride the trend of socially conscious investing.

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Introducing the **Kiplinger ESG 20**, the list of our favorite stocks and funds that excel at meeting environmental, social and corporate governance challenges. Buying stocks or funds that are planet- and people-friendly is becoming as important a goal among investors as saving for retirement. In response to crises tied to climate change and the global pandemic, as well as to pressing social issues such as income inequality and the push for racial justice, more investors are embracing the ESG investing movement in a bid to drive change and make the world a better place.

People who want to align their investments with their values seek businesses that not only focus on increasing profits for shareholders but also take steps to protect the planet, boost the well-being of their employees, keep customers satisfied and safe, and assist communities in need. Money invested just in ESG index and exchange-traded funds could jump nearly sixfold this decade, to \$1.2 trillion, projects BlackRock, the world's largest money management firm.

You don't have to sacrifice returns to jump on the ESG train. The S&P Composite 1500 ESG index, a broad measure of ESG-focused stocks covering U.S. companies of all sizes, returned 36.4% over the past year—barely a hair less than the 36.6% return of the S&P Composite 1500, its non-ESG cousin. Over the past three years, the ESG index has returned an annualized 18.6%, besting its counterpart's 17.2% average yearly gain.

Because it's harder to quantify non-financial ESG factors, such as a company's carbon emissions or its record on board diversity, than it is to tally annual revenues or calculate a price-earnings ratio, identifying promising investments through a sustainability lens can be as tough as pinpointing where a Category 5 hurricane will make landfall. An explosion of ESG ratings, rankings and reports adds more complexity than clarity, given that criteria are continually evolving, reporting isn't standardized and U.S. regulation is nascent.

Our list is broken down by category: You'll find 16 stocks in the **Environmental, Social** or **Governance** groups, along with four funds that cover any or all of the bases. Few firms exceed on every ESG metric, but we tried to select all-around good corporate citizens. Says Cheryl Smith, comanager of Green Century Balanced fund: "No company is perfect."

ESG Fund: Brown Advisory Sustainable Bond Fund

Choice is not a problem with ESG funds; there are dozens. But funds that claim to incorporate ESG principles into their investment process do so in various ways and to different degrees. Some might seek to make a measurable impact on a specific sustainability challenge; others might focus on one ESG pillar or another, integrate ESG criteria into a broader investment strategy, or even actively engage with companies to improve their ESG profiles. These funds offer one or more of those tilts.

- **Category:** Intermediate core-plus bond
- **Expense ratio:** 0.54%
- **Annualized total return, 1 year:** 1.1%
- **Annualized total return, 3 years:** 6.1%

Thomas Graff and Amy Hauter combine ESG and fundamental analysis to invest in government, corporate and mortgage-backed securities, among others. Each bond issue finances projects that make a positive impact in one of three areas: health and well-being, economic development and social inclusion, or the environment. "We want to understand how the bond plays a role in the overall sustainable goals of that issuer," says Hauter.

With COVID and racial injustice top of mind last year, **Brown Advisory Sustainable Bond Fund** (BASBX) picked up bonds that address those issues. A World Bank sustainability bond funded training and support for front-line health care workers and paid for medical equipment. A Bank of America bond financed mortgages with low interest rates and down payment requirements for first-time Black and Hispanic buyers and provided capital for minority-owned businesses.

Over the past three years, the fund's 6.1% annualized return (net of fees) beat the Bloomberg U.S. Aggregate Bond index, which returned 5.4%. ■