

# Introducing Buckingham's Socially Responsible Investing Strategies

The landscape for socially responsible investing (SRI) is an ever-evolving field, and the IPC is seeing increased interest in this area. In response to this demand, Buckingham has evaluated several strategies that could be appropriate for clients who want socially responsible solutions.

This white paper is organized as follows:

- Challenges with SRI
- Performance of SRI Strategies
- Approved SRI Strategies

## Challenges with Socially Responsible Investing

Three big challenges are associated with socially responsible investing. One challenge in discussing SRI is that everyone has a different definition for what “socially responsible” investing means. For example, a particular socially responsible fund might exclude firms that directly participate in abortions. A Catholic high school would likely view that screen as favorable, while Planned Parenthood may view that screen unfavorably. Furthermore, some strategies completely screen out securities, while others may just alter the weightings of a strategy based on social factors.

Buckingham Wealth Partners Investment Policy Committee (IPC)<sup>1</sup> approved several different socially responsible funds with varying screens to attempt to cover the different definitions of “socially responsible.” The IPC also approved a separate account manager, Parametric, which allows for ultimate flexibility in designing a socially responsible strategy to exactly match a client’s specific socially responsible concerns.

Second, the vast majority of low-cost SRI products only cover U.S. large-cap stocks. This makes it challenging to build a diversified portfolio using only socially responsible products. The IPC believes global diversification is a critical component of a well-designed portfolio, so ideally, looking for options that go beyond U.S. large-cap stocks.

Third, most SRI mutual funds are expensive. While there is a proliferation of lower-cost socially responsible ETFs, most of these ETFs have minimal assets under management and limited trading liquidity. The IPC generally only approve ETFs when they have at least \$100 million of Assets Under Management (AUM) and at least \$5 million of average daily trading volume. These screens filter out any funds at risk of closure or that have wide bid-ask spreads (which ultimately are a drag on returns).

<sup>1</sup> Buckingham Wealth Partners IPC is the the Investment Policy Committee (IPC) of Buckingham Strategic Wealth and Buckingham Strategic Partners and not the IPC of the independent members of the Buckingham Strategic Partners community.

## Performance of SRI Strategies

Several papers looked at the performance of SRI strategies. The key takeaways from this research are:

- Sin stocks from the alcohol, tobacco and gaming industries have generated higher returns than other stocks, both in the U.S. and internationally.<sup>2</sup> However, these stocks appear to represent less than 3% of world market capitalization, so complete exclusion of these stocks would not lead to significant underperformance.<sup>3</sup>
- SRI screens tend to introduce a tilt toward large-cap, growth and quality/profitability. In general, this reduces the expected return of a portfolio relative to a size and value-tilted portfolio.<sup>4</sup>
- To the extent Environmental, Social and Corporate Governance (ESG)/SRI continues to gain traction, the historical effect on returns may substantially underestimate the forward-looking impact on returns.

## Approved Socially Responsible Strategies

### Models

The IPC has a socially responsible model portfolio-set and a sustainable model portfolio-set for Advisors to use. These portfolios use the corresponding socially responsible or sustainable Dimensional Funds as the core of the portfolios. More information on these models is found in the model model fact sheets. Information on Dimensional socially responsible and sustainable funds can be found below.

### Funds

For Advisors who wish to create a custom portfolio based on client preferences, the IPC has approved several different socially responsible funds that can be used to construct a diversified portfolio. All expense ratios below are net expense ratios. Expense ratios mentioned below are net fund expense ratios and do not including the advisory fee associated with management of a portfolio containing the below funds. Please review the prospectus for each fund for more detail and note that these screens are subject to change. The prospectus can be found at each fund managers website.

### Blackrock US Carbon Transition Readiness ETF (LCTU)

- Expense ratio: 0.14%
- Invests in U.S. large-cap and mid-cap stocks.
- The fund will overweight companies that the managers expect will benefit from the transition to a low-carbon economy and will underweight companies that the managers expect will underperform from this transition.

<sup>2</sup> Blitz, David and Fabozzi, Frank J., Sin Stocks Revisited: Resolving the Sin Stock Anomaly (August 9, 2017). Journal of Portfolio Management, Vol. 44, No. 1, 2017

<sup>3</sup> Morningstar. Product Involvement % data point for - Alcohol, Tobacco, and Gambling for iShares MSCI ACWI ETF as of September 30, 2023.

<sup>4</sup> Richey, Greg M., Fewer Reasons to Sin: A Five-Factor Investigation of Vice Stocks (January 18, 2017). Available at SSRN: <https://ssrn.com/abstract=2901795>

## Calvert Responsible Index Funds

- Funds
  - Calvert U.S. Large-Cap Core Responsible Index Fund (CISIX); 0.24% expense ratio
  - Calvert U.S. Large-Cap Value Responsible Index Fund (CFJIX); 0.24% expense ratio
  - Calvert U.S. Mid-Cap Core Responsible Index Fund (CMJIX); 0.24% expense ratio
  - Calvert International Responsible Index Fund (CDHIX); 0.29% expense ratio

## DFA Socially Responsible Funds

- Funds
  - DFA U.S. Social Core Equity 2 (DFUEX); 0.21% expense ratio
  - DFA International Social Core Equity (DSCLX); 0.27% expense ratio
  - DFA Emerging Markets Social Core (DFESX); 0.44% expense ratio
  - DFA Social Fixed Income Portfolio (DSFIX); 0.21% expense ratio
- Excludes companies with exposure to nuclear weapons, tobacco, alcohol, cannabis products, gambling, providing abortion, pornographic material, controversial weapons, civilian firearms, child labor, stem cell research, private prisons, greenhouse gas emissions, and coal reserves.

## DFA Sustainability Funds

- Funds
  - DFA U.S. Sustainability Core 1 (DFSIX); 0.17% expense ratio
  - DFA U.S. Sustainability Targeted Value (DAABX); 0.34% expense ratio
  - DFA International Sustainability Core 1 (DFSPX); 0.25% expense ratio
  - DFA Emerging Markets Sustainability Core 1 (DESIX); 0.45% expense ratio
  - DFA US Sustainability Core 1 ETF (DFSU); 0.18% expense ratio
  - DFA Global Sustainability Fixed Income Portfolio (DGSFX); 0.23% expense ratio
- Excludes or underweight companies with negative impacts on the environment, and overweight companies with positive impacts on the environment. These funds also exclude companies that manufacture nonmilitary firearms.

## iShares MSCI ACWI Low Carbon Target ETF (CRBN)

- Expense Ratio: 0.20%
- Invests in developed market and emerging market large and mid-cap stocks.
- Tracks the MSCI All-Country World Index with a target 0.30% annual tracking error. Overweights companies with low carbon emissions relative to sales and those with low potential carbon emissions per dollar of market capitalization.

### **iShares MSCI KLD 400 Social ETF (DSI)**

- Expense Ratio: 0.25%
- Invests in U.S. large-cap stocks.
- Excludes the following industries: adult entertainment, alcohol, civilian firearms, controversial weapons, conventional weapons, GMOs, military weapons, nuclear power and tobacco.

### **iShares MSCI USA ESG Select ETF (SUSA)**

- Expense Ratio: 0.25%
- Invests in U.S. large-cap and mid-cap stocks. Overweights companies with high ESG ratings and underweights companies with low-ratings in each sector.
- Excludes the following industries: tobacco and civilian firearms.

### **iShares ESG MSCI USA Leaders ETF (SUSL)**

- Expense Ratio: 0.10%
- Invests in U.S. large-cap and mid-cap stocks. Selects the highest-rated ESG companies in each sector and weights using market-capitalization.
- Excludes the following industries: alcohol, gambling tobacco, nuclear power, weapons and civilian firearms.

### **iShares ESG Aware Funds**

- Funds
  - iShares ESG Aware MSCI USA ETF (ESGU); 0.15% expense ratio
  - iShares ESG Aware MSCI USA Small-Cap ETF (ESML); 0.17% expense ratio
  - iShares ESG Aware MSCI EAFE ETF (ESGD); 0.20% expense ratio
  - iShares ESG Aware MSCI Emerging Markets ETF (ESGE); 0.25% expense ratio
- Excludes the following industries: tobacco, controversial weapons, civilian firearms, thermal coal and oil sands.
- Seeks to maximize ESG score while maintaining target-tracking error relative to respective non-ESG indices.

### **Nuveen ESG ETFs**

- Funds
  - Nuveen ESG Large-Cap Value ETF (NULV); 0.26% expense ratio
  - Nuveen ESG Small-Cap ETF (NUSC); 0.31% expense ratio
- Selects the highest-rated ESG companies in each sector and weights using market capitalization.
- Excludes the following industries: alcohol, tobacco, gambling, nuclear power and weapons/firearms. The fund also exclude any companies that own fossil fuel reserves.

### **Pax Ellevest Global Women's Leadership Fund (PXWIX)**

- Expense Ratio: 0.52%
- Invests in developed-market large-cap and mid-cap stocks.
- Companies are selected based on multiple criteria of gender leadership, including representation by women on the board of directors and in executive management, woman CEOs, woman CFOs, and whether they are signatories to the Women's Empowerment Principles (a joint initiative of the U.N. Global Compact and U.N. Women).

### **Praxis Funds**

- Funds
  - Praxis Value Index (MVIIX); 0.38% expense ratio
  - Praxis Small-Cap Index (MMSIX); 0.43% expense ratio
  - Praxis Int'l Index (MPLIX); 0.62% expense ratio
- Sub-advised by Aperio.
- 1% of assets committed to community development investing.
- Faith based screens. Funds exclude companies with exposure to providing abortion, adult entertainment, alcohol, cannabis, firearms, gambling, nuclear power, tobacco, and nuclear weapons.
- Fund also exclude companies with poor ESG scores that aren't already excluded due to the above screens.

### **SPDR S&P 500 Fossil Fuel Reserves Free ETF (SPYX)**

- Expense Ratio: 0.20%
- Invests in the S&P 500 with exclusions for companies that own fossil fuel reserves.
- For purpose of the composition of the fund, fossil fuel reserves are defined as coal, oil, natural gas, and shale gas reserves.

### **Steward Funds**

- Funds
  - Steward Large-Cap Enhanced Index Fund (SEECX); 0.61% expense ratio
  - Steward Small-Mid Cap Enhanced Index Fund (SCECX); 0.65% expense ratio
  - Steward Int'l Enhanced Index Fund (SNTCX); 0.78% expense ratio
- Excludes companies with exposure to alcohol, tobacco, gambling, providing abortion, stem cell research, adult entertainment, or cannabis products.

## Vanguard ESG ETFs

- Funds
  - Vanguard ESG US Stock ETF (ESGV); 0.09% expense ratio
  - Vanguard ESG International Stock ETF (VSGX); 0.12% expense ratio
- Invests in large-cap, mid-cap and small-cap stocks.
- Excludes the following industries: adult entertainment, alcohol and tobacco, weapons, fossil fuels, gambling and nuclear power.

## Vanguard FTSE Social Index Fund (VFTAX)

- Expense Ratio: 0.14%
- Invests in U.S. large-cap and mid-cap stocks.
- Excludes the following industries: weapons, tobacco, gambling, alcohol, adult entertainment and nuclear power.

## Vert Global Sustainable Real Estate ETF (VGSR)

- Expense Ratio: 0.45%
- Invests in global REITs.
- Excludes REITs with a history of controversy, are inadequately prepared for climate change and those in the fossil fuel or prison industries.

### ***Separate Account: Parametric***

For clients who wish to have a custom-tailored portfolio, a separate account managed by Parametric may be appropriate. Parametric will buy individual securities and can incorporate size and value-tilts into the portfolios. Parametric charges 0.25% for the first \$10 million and 0.23% above \$10 million. Additional fees may apply for licensing or certain screens. Parametric has a minimum account size of \$500,000.

Below are the portfolio constructions recommended for different asset levels:

It is not recommended to utilize for accounts below \$500,000.

\$500,000 - \$750,000: 50% Russell 3000 Index and 50% S&P 600 Value. We recommend supplementing the Parametric account with international equity funds.

\$750,000 - 2,500,000: 30% Russell 3000, 30% S&P 600 Value, 20% MSCI World ex US, 20% MSCI EAFE Value. We recommend supplementing the Parametric account with an emerging markets fund.

2,500,000 or above: 30% Russell 3000, 30% S&P 600 Value, 15% MSCI World ex U.S., 15% MSCI EAFE Value, 10% BNY Mellon Emerging Markets ADR.

Depending on the client's goals, Parametric offers four different ways to implement a socially responsible strategy. Note that clients can use some or all of these together:

## Screens

- Appropriate for clients who want to own companies with better ESG characteristics without any exceptions.
- Clients are able to choose from a variety of ESG screens.
- Parametric builds a portfolio using only companies that pass the screens while controlling for unintended industry or factor tilts.
- The client is able to achieve a targeted factor exposure while only holding acceptable securities.

## Integration

- Appropriate for clients who want to own companies with better ESG characteristics but don't want to exclude companies altogether.
- Parametric uses third-party providers to score companies based on how they manage key ESG issues. Parametric overweights higher-scoring companies and underweights lower-scoring companies while achieving the targeted factor exposure.

## Proxy Voting

- Appropriate for clients who want companies with poor ESG characteristics to change their behavior.
- Client gives proxy-voting authority to Parametric. Parametric analyzes company behavior, governance standards and relevant proxy proposals. Parametric votes according to strong governance standards.

## Resolution

- Appropriate for clients who want to raise new issues with the companies they own.
- The client needs to inform Parametric about their interest in filing shareholder resolutions on certain topics. Parametric informs the client about any opportunities as they arise and confirms with the client the actions they'd like to take. Parametric makes sure to maintain ownership of the stock during the filing.

## Conclusion

SRI portfolios are designed to help clients express their values and social ideals through their investments. Despite the various challenges associated with mutual fund and ETF options available today, The IPC has a robust menu of socially responsible strategies that can be used to construct a diversified portfolio. The IPC also has partnered with a separate account manager to manage custom-tailored portfolios. The IPC will continue to evaluate new SRI products as they become available.

Expense ratios updated as of February 2024

Buckingham Wealth Partners Investment Policy Committee (IPC) has completed an internal due diligence on Parametric. The IPC relies on Parametric, an unaffiliated advisor, to conduct the analysis of the underlying positions of the SRI oriented funds mentioned above.

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