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A Closer Look at Responsible Investing

Over the last few years we've seen a drastic shift towards making responsible investing strategies more mainstream. And, since the outset of the pandemic, the demand for investment products that incorporate responsible investing (RI) has surged.

But what exactly do these responsible investments entail? Here's an overview of the five categories of responsible investing.

Responsible Investing – Key Categories

1. ESG Integration

This is the most widely known category of responsible investment. At its core, it is a non-financial risk mitigation strategy and financial performance remains the priority. Examples of environmental, social and governance (ESG) factors include:

Environmental – Climate change, water management, pollution, renewable energy
Social – Labour standards, human rights, health and safety, privacy and data
Governance – Board and leadership structure and diversity, ownership, ethics, taxation, executive compensation

It can be argued that ESG integration can be viewed as one of the new baselines for modern investing. In fact, in a recent survey conducted by Ernst and Young (EY)[1], 72% of institutional buy-side investors now say they conduct a structured approach to non-financial disclosures, up from 27% in 2016. Additionally, it should be noted that ESG-related disclosures in company reports are currently in their infancy and these risks can be at times difficult to evaluate. While there is currently not a standardized, accepted way of reporting ESG-related issues, advances have been made by investment managers, many of whom now have analysts exclusively dedicated to focus on how these factors affect companies.

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2. Ethical Investing

Also known as Socially Responsible Investing (SRI), ethical investing takes the integration of ESG factors one step further and actively inserts an overlay of social consciousness. The key component of ethical investing involves the active removal of specific sectors and investments according to specific ethical guidelines. You will commonly see sectors such as tobacco, weapons manufacturing and fossil fuels removed from ethical investments. While the priority is still focused towards making a profit, investing must be balanced against social principles. Ethical investments are not actively contributing to sustainability efforts; rather they attempt to do no harm by screening out industries that are deemed unethical. The overall goal is to generate a return without violating an investor's individual social conscience.

3. Sustainable Investing

Where ethical investing applied a 'negative-screen' to the investable universe, sustainable investing applies a 'positive-screen' in order to identify companies that are leaders in sustainable and progressive technologies. One thing to note is that this type of investing will also look to apply ESG integration and ethical screens, in addition to investments in companies that are deemed to be enhancing global sustainability efforts. Sustainable investing includes companies who are devoted to transitioning to a low carbon economy such as those that produce electric vehicles or reduce waste that potentially fills landfills.

4. Thematic Investing

Thematic investment strategies focus on the enhancement of predicted long-term, positive trends, rather than targeting specific industries or companies. Some examples include climate change, resource scarcity and societal change. This type of investing attempts to influence positive change, while focusing on enhancing returns. Some examples include artificial intelligence, healthcare and environmental technology.

5. Impact Investing

Impact investments attempt to actively support companies that are solving large scale environmental and societal challenges. It is by far the most rigorous of the responsible investing strategies and attempts to make the greatest positive change. The key component of impact investing is that the true 'impact' of an investment is just as measurable as the overall financial performance. Both overall impact and financial performance are important, however the priority remains the overall measurable impact on society. Examples include enterprises that benefit the community such as renewable energy and agriculture.

Conclusion

Every individual investor has a unique risk profile and set of values. The various categories of responsible investing provide a large array of opportunities for investors to align with their values, and their comfort level. Investors should take the time and really think about what they personally care about, and then do some extensive research into the best fit for you.

[1]EY Global Institutional Investor Survey, 2020.

5 Mistakes in Selling a Business

When the selling process works well, everybody walks away happy. The seller knows that they got the best available price and terms under the circumstances, while the buyer feels like the deal was fair. But when the selling process breaks down the results can be disastrous.

Here are five common mistakes to avoid in order to help you achieve your goals and reach the best possible outcome.

1. Unrealistic value expectations

It is shocking how many private company owners are surprised by how much their business is really worth. More often than not, business owners tend to overvalue their companies. The problem with this, is that when selling they will be reluctant to accept a fair offer if they believe it is too low. At the end of the day, the business is worth what a willing buyer is willing to pay, and a willing seller is willing to accept. It's critical that business owners understand what their business is really worth before they start the sales process. If the value is lower than expected, there may be time to do certain things to help increase the value before selling the company.

2. Lack of advanced preparation

They say that failing to plan is planning to fail, and this holds true as it relates to the sale of a business. Most business owners want to extract maximum value, but they also need to take income taxes into account. Selling the shares of a business can result in a very different income tax bill than a sale of business assets, so it's important to understand the differences. Planning in advance may mitigate the tax burden. Also, the sale process typically takes 6 – 12 months, and some business owners are surprised by how much time is consumed and how intense is the process. Cleaning up the balance sheet also helps ensure that the owner doesn't leave any money on the table. These are just a few of the small things that can go a long way with a little advanced preparation.

3. Waiting until you must sell

None of us truly knows the future, so determining the optimal time to sell can be challenging. However, it is unfortunate that many business owners wait until a negative life event (poor health, divorce, death, etc.) arises before they decide to sell. Further, waiting too long may prevent you from participating in an upward cycle in your industry or the economy, and eroding the value of your business. The best time to sell is usually when you don't have to. You'll know it's time to sell when you're still having fun, sales and profitability are growing, your reputation is stellar, and your health is good. Waiting until you have to sell can be troublesome.

4. Lack of a selling strategy

Professional athletes have strategies for winning; you too should have a strategy for the sale of your business. Timing is important: your company's performance, the economic environment, and your industry's outlook all make a difference because it's harder to sell during challenging times. Understanding the different potential buyers is also important and your strategic buyers will be right for some businesses, while financial buyers will be better for others. Know the difference. Finally, consider price, confidentiality and time – you can have your choice of any two, so it's critical that you decide what's most important to you.

5. Confidentiality

Selling a business is unlike selling real estate, mainly because people are a big part of every business. Many employees don't like change, so if they find out the business is for sale, they're more likely to leave and turnover is usually bad for business. Similarly, if customers and suppliers know that a change in ownership is coming,

that may open the door for them to reconsider parts of their relationship with your business. There are some circumstances where confidentiality cannot be absolute (such as a car dealership or other franchise), but it is better to err on the side of caution with regard to information sharing.

Seek advice

Of course, selling a business is a complicated process and you need to avoid the common pitfalls that are frequently encountered. A professional advisor who specializes in the sale of private companies can help you steer through these and many other challenges that will inevitably arise.

This article is intended to be very general in nature. It is important to consult with professional advisors when considering selling your business.

Estate Planning for Your Digital Assets

Looking at estate planning through a digital asset lens

Over the course of our lives, we have begun accumulating an array of digital assets. These may include things that you don't even think twice about, such as domain names, online music and blogs, electronic storefronts, and more. If you take inventory of these assets, it will surprise you just how many you own. Besides having a lot of sentimental value, digital assets could also have potential financial value. And if they are not dealt with properly, they may be susceptible to fraud or hacking.

The bottom line is that if you haven't accounted for these types of digital assets in your Will, they may be lost forever.

Getting started

1. Make a list and check it twice

So where do you begin? First, you have to know exactly what digital assets you own. If you haven't already, begin with a comprehensive list that has everything you can possibly think of.

To make it easy, split up your assets into one of two categories. Those with "social value" include Facebook, Twitter and LinkedIn. Ones with financial value, include things like PayPal and online shopping accounts. Write down the login and passwords for all these accounts. We all know how sensitive passwords are, so it's never a bad idea to double and triple check that you have the correct information. This will make it so much easier for both your executor/digital executor and your loved ones.

2. Appoint a digital executor

We can't stress how important this is. However insignificant you perceive them to be, any digital assets that are unaccounted for in an estate plan could pose a huge challenge for executors. It is strongly recommended that you name an executor who will be able to clearly identify your digital assets and take the appropriate measures to deal with them, as per your wishes. This 'digital executor' will be in charge of taking care of everything related to your digital assets, including things like managing or deleting social media profiles, and downloading files.

3. Put it in writing

During the probate process, once your Will is filed with the court, it becomes public. As a result, it is pertinent that you do not include any sensitive information like passwords in your Will. If you were to take one piece of advice, it would be to leave your digital executor a side letter of instructions about your digital assets. Your digital executor should not have to second guess anything. Ensure that all the logins and passwords are correct. You will have to periodically revisit the Will to ensure that this information is always up to date.

Be clear of the value of each asset, so there is no confusion later on. You have taken great care over your life to accumulate these digital assets, and how unfortunate it would be if they were mismanaged and fell into the wrong hands.

Bottom line, don't let your digital asset planning be an afterthought. Be proactive and start by thinking about who would be best to appoint as a digital executor. Remember, this person should be digitally savvy. Also, make sure that you have dotted all those extra i's and clearly spelled out how your digital assets should be dealt with.

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