ISSUE ONE 2020

FOSTER GROUP®

VECTORS & VIEWPOINTS®

VECTOR: SMALL CHANGES MAKE A BIG DIFFERENCE

ESG INVESTING:

WHAT DOES IT MEAN TO BE A RESPONSIBLE INVESTOR?

READ TIME
4 minutes

Kent Kramer, CFP®, AIF®, Chief Investment Officer

At the recent Davos Economic Forum in Switzerland (January 21-24, 2020), the world's business, political, social, and wealth elites met to discuss the state of the world economy and challenges to global growth and sustainability. The area of interest receiving the most attention was how governments, corporations, and investors should responsibly act to address global climate change and environmental sustainability.

This is not a new issue for investors. **Environmental, Social, and Governance (ESG)** investment strategies and products have proliferated in the past five years. This is due to individual and institutional investors becoming increasingly interested in positioning their portfolios as forces for good in the world while still achieving long-term asset growth and income.

Socially Responsible Investing (SRI), of which ESG is a type, gained public notoriety in the late 1980's. The divestment movement against South Africa's apartheid government saw more than 150 college endowments, along with many state and local pension funds, sell all their stocks of companies deemed to be profiting from or supporting the South African policy. This had the further result of seeing "over 200 US companies cut all ties with South Africa, resulting in a loss of $1 billion in direct American investment."[1] The resulting capital flight created intense economic pressure on the country, which eventually brought an end to apartheid and lead to the historic election of Nelson Mandela in 1994.

In today's vocabulary, this kind of ESG investing is classified as "screening." An investor chooses to have companies and/or countries who violate certain norms expressly excluded from their portfolio.

In a research paper by investment management firm AQR, in conjunction with the United Nations Principles for Responsible Investment, the authors describe the range of approaches investors may take in expressing their ESG convictions through portfolio construction.[2]

Responsible Asset Selection +

Screening			ESG Integration	
Norms-Based (static)	ESG (dynamic)	Thematic	Valuation	Risk
e.g.: - Coal - Tobacco	- Environmental - Social - Governance	e.g.: - Green - Impact	- Environmental - Social - Governance	- Environmental - Social - Governance

Responsible Ownership

Voting	Engagement	Activism	Direct Management
e.g.: - ESG-focused - ESG-aware	e.g.: - Campaign - Disclose	e.g.: - Board seat - Acquire shares	e.g.: - Private equity - Other illiquids

Source: AQR, UN PRI. Framework for illustrative purpose only. The framework is designed to allow for the application of a multitude of approaches.

Continued on next page

ESG INVESTING CONTINUED

Responsible Asset Selection

Responsible Asset Selection helps determine which assets should be held in the portfolio. **Screening** is usually thought of as exclusionary. For instance, an investor opposed to smoking and tobacco might exclude Phillip Morris. Positive screens focus on inclusion and identify which companies should be held. In the case of an investor whose governance goals include favoring companies with female Board members or Executives, a positive screen would identify which companies met these criteria and would, therefore, be included in the portfolio.

ESG Integration seeks to understand the additional risk and return characteristics of companies and countries with positive and negative ESG qualities. Current research indicates that good governance, e.g., companies with strong shareholder rights, favorable working conditions, etc., may have better long-term expected returns than poor governance companies.

Responsible Ownership

Investors may also focus on **Responsible Ownership**, doing things that positively influence the direction of the company as a shareholder. Rather than negative screening and completely divesting from the company, a responsible owner will **actively vote** their proxies for board candidates who will champion favorable ESG policies within the company. The Responsible Owner maintains a "seat at the table" and **engages** company leadership through their voting rights.

ESG investing is growing in popularity and public interest. The values being expressed through ESG related portfolio decisions are as diverse as the universe of investors participating in global markets today. Additionally, reliable conclusions as to the potential costs or benefits, either in expected risk or return of making these kinds of investment decisions, is inconclusive.

As a fiduciary, Foster Group has taken steps to develop portfolio construction options which enable investors to pursue Responsible Asset Selection and Responsible Ownership according to their unique values and convictions. If this is an area of interest for you or your organization, we would welcome a discussion of your unique goals and what investment approaches are available.

1. *https://www.investopedia.com/articles/economics/08/protest-divestment-south-africa.asp*
2. *"Responsible Asset Selection: ESG in Portfolio Decisions", AQR Alternative Thinking, Q4 2019*

[*NEW* TEAM MEMBERS]

BRANDIE ADAIR

Brandie Adair is a Client Service Specialist. In this role, she works closely with the Client Service Team and Associate Advisors to serve the needs of Foster Group clients. Brandie graduated from University of Phoenix Online with a degree in Business Administration. In the warmer months Brandie and her son enjoy firing up the grill, taking walks, playing yard games, and hanging out with friends and family.

ETHAN GASCHO, CFP®

Ethan Gascho is a Senior Associate Advisor. In this role, he assists with the delivery and implementation of financial plans and meets client service needs. Ethan graduated from Drake University with a bachelor's degree in Finance and Accounting. Ethan enjoys spending time with his wife and black lab. He also enjoys playing tennis at both the regional and national levels and has been lucky enough to compete at USTA Nationals in 2017 and 2019.

HOW WILL THE SECURE ACT AFFECT YOUR PLAN?

READ TIME
2 minutes

Zach Dalluge, Associate Advisor

On January 1st, 2020, the Setting Every Community Up for Retirement (SECURE) Act went into effect. The bill passed congress with wide bipartisan support, and, despite a long wait for the Senate to take it up in 2019, it was passed and signed into law by the President at the end of December.

The bill made several, significant changes for retirement plans and investors. Here are some of the most notable changes:

- Required Minimum Distributions (RMD) now begin at age 72 for anyone that turns 70.5 **after** December 31, 2019. For anyone that turned 70.5 prior to January 1, 2020, the old rules still apply.
- Inherited IRA's will no longer have a required minimum distribution but will be required to be fully liquidated in a 10-year window. This will only apply to beneficiary IRA's that were **inherited** after December 31, 2019. For any inherited dollars prior to January 1, 2020, the old rules still apply. There is also an exception for surviving spouses, minor children, disabled individuals, chronically ill individuals, and an individual who is not more than 10 years younger than the IRA owner.
- While the RMD age moved from 70.5 to 72, the qualified charitable distribution (QCD) age has not changed. Individuals who turn 70.5 are still able to give pre-tax dollars from their IRA up to $100,000 per year to qualified non-profits, even if they are not yet taking an RMD.
- The age limit for traditional IRA contributions has been removed. This opens the door to new planning tools, such as back-door Roth contributions after age 70.
- Allows for a penalty-free $5,000 401(k) or IRA distribution for childbirth or adoption expenses.
- Allows up to $10,000 of 529 plan dollars to be used to repay student loans.
- For 401(k) plan sponsors and participants, the bill expands access to small employers to set up multi-employer 401(k) plans, lessens the risk on employers offering annuity options inside a 401(k), and expands access for part-time workers.

As always, you'll want to review your investment options and tools available within your 401(k) to ensure they are aligned with your plan.

If you have any questions about how the SECURE Act will affect you, please contact us.

Foster Group is not engaged in the practice of law or accounting.

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Our new client portal provides an easy way to find information about your account and your team at Foster Group. Here are just some of the things you can do in our My Foster Group portal:

- See an overview of your account and portfolio performance
- View insightful dashboards
- Retrieve quarterly reports
- Find contact info for your advisory team
- Schedule meetings with your advisor
- More features to come!

If you don't have a My Foster Group Account, please contact us.

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