

Companies' social impact increasingly scrutinized by investors

Wealth Management & Estate Planning

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Last month, BlackRock Inc., the world's largest asset manager, sent a letter to CEOs of the world's largest public companies putting them on notice: they need to go beyond profits and do good for all of their stakeholders to gain its favor.

"Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society," wrote BlackRock CEO Laurence Fink.

These investment strategies are sometimes called socially responsible investment; sustainable, responsible and impact investing; and environmental, social and governance investing.

Whatever you call it, investing a portfolio with an eye toward environmentally responsible, morally reputable and well-led companies is gaining in popularity.

According to the Forum for Sustainable and Responsible Investment, sustainable, responsible and impact investing grew by about 33 percent from 2014 to 2016, to \$8.7 trillion. That's about one-fifth of all funds under professional management in the U.S.

SRI investing is nothing new, said Adam Peck, founder and chief investment officer at Riverwater Partners LLC in Milwaukee. But it is a relatively rare strategy in the Milwaukee area.

"Really, technically, it started in the 18th century when both Quakers and Methodists laid out clear guidelines about the type of companies their followers should invest in," Peck said. "It really started to pick up steam in the 1970s with the anti-apartheid movement. The next big jump was really the financial crisis, I think."

That recent increase may have been driven, in part, by the fact that millennials grew up with stocks crashing around them during the Great Recession, Peck said. Millennials and women have shown the most interest in ESG investing.

Traditionally, industries not included in SRI investing are tobacco, alcohol, firearm and other "sin stocks." Among the companies sought out for SRI investment are those that are conserving energy, set sustainability goals, recycle materials and hire diverse leadership.

Consumers are more aware of the purchases they're making because of these sorts of issues, which has helped increase the awareness and demand for related strategies, said Gregory Wait, president at Germantown-based Falcons Rock Investment Counsel LLC, a fee-for-service investment consulting firm.

And crafting the strategies often includes shareholder advocacy like what BlackRock did, pressuring big companies to become better SRI investments.

Dana Investment Advisors Inc. in Waukesha, which has three ESG strategies, developed the first one in response to a request from a group of nuns who wanted to invest their pensions in companies that reflected their values, said Lydia Miller, senior vice president and portfolio specialist.

Consumers have demanded companies shift to more healthy, organic and sustainable food products; use less water; emit less carbon; and take a stand on social issues. These issues are not just about altruism, but have had material impacts on companies' bottom lines, litigation risk and reputations, Miller pointed out.

Many SRI strategies have outperformed traditional approaches.

Dana's Social ESG Equity Strategy, as of Dec. 31, had delivered 9.07 percent returns, versus the benchmark of 5.6 percent, since its inception on Jan. 31, 2000.

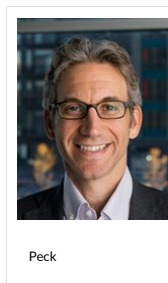
"It's not just that you're doing well from an ESG standpoint, but it has to be a stock that's attractive to us fundamentally, as well," Miller said.

"There's a common misperception that you have to sacrifice performance when you're investing on an ESG basis. It's 100 percent not true," Peck said.

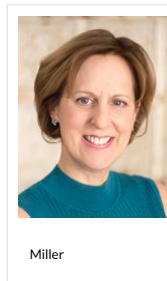
Wait started noticing an uptick in SRI investors over the past three or four years. Money managers have started using the strategies as risk mitigators, in addition to investment strategies.

About 80 percent of Falcons Rock clients have at least a portion of their portfolio in SRI investments, he said.

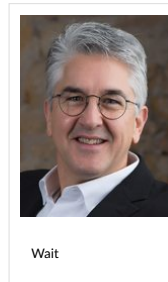
"Our research has found that portfolios can earn an equal or better rate of return with equal or less risk, while at the same time helping to make the world a better place," Wait said.



Peck



Miller



Wait

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