A Conversation on Sustainable and Impact Investing – Motley Fool’s Alyce Lomax Interviews US SIF Director of Research Meg Voorhes

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February 26, 2018

When I think of socially responsible investing, and environmental, social, and governance investing, I think of US SIF (the Forum for Sustainable and Responsible Investment). This is the organization at the center of the movement, providing great information, resources, and monitoring the evolving field.

I was lucky enough to sit down recently with Meg Voorhes, director of research at US SIF. Our conversation is transcribed below. With BlackRock's latest action regarding corporate CEOs, Hollywood's #MeToo movement, and companies like Exxon Mobile rising up against climate change, the world is changing quickly. Where do we go from here, and how do investors get involved? Meg shares her thoughts on this and more.

Alyce Lomax: Meg, could you could tell us a little bit about the US SIF and your work there?

Meg Voorhes: Thank you, Alyce! US SIF, the Forum for Sustainable and Responsible Investment, is the membership association for investment professionals in this field. We have about 300 firms and organizations that are members, and together they account for about $3 trillion under management or advisement.

The important thing is that we're all united by a vision of using investment capital to help build a more sustainable and equitable economy. To do that, we do a lot of public education and outreach. We have a research program. Probably our most famous research product is our biennial report on sustainable, responsible, and impact investing trends in the United States. We're getting geared up to conduct the research and start the survey for our 2018 edition.

We have an annual conference to which not only our members come, but many people who are interested in the field and learning more about it. We offer online and live courses for financial advisors and others who want to learn the fundamentals of sustainable and impact investing.

We also work on public policy issues. Until a few years ago, for instance, the Department of Labor, which provides guidance for fiduciaries of private sector retirement plans, had very confusing guidance regarding whether you could consider environmental, social, and governance factors if you were a fiduciary for retirement plans. And we got the Department of Labor up to date to recognize that modern portfolio managers and fiduciaries are considering these environmental, social, and governance risks and opportunities, and probably many fiduciaries should be incorporating ESG issues into their investment policies.

So, that's a range of the programs that we work on but, basically, we're trying to advance the field and encourage more people and investors to get involved in this area.
AL: That's wonderful. Yes, I have attended some of your conferences. I've taken one of your courses, which I really enjoyed. I found it so useful. And I love that Trends Report. I always get so excited when that comes out, so that's always exciting news. I think we'll talk a little bit about that in a bit.

Right from the get-go, I noticed some things fairly recently. I feel like there's a change in the acronym for SRI right now. Most of us know that term as meaning socially responsible investing, but I've seen that more organizations, including yours, are using it to denote sustainable, responsible, and impact investing. It seems to me that illustrates an evolution in the area, and I was wondering if you had any thoughts on that aspect of things.

MV: Yes. Sometimes I wish we could communicate without words, but that is not possible. There are so many terms to define this area. People often have preferences, and those are not even the only terms, the ones you've mentioned. People can talk about mission-related investing. Ethical investing. But, yes, I think there has been an evolution.

A lot of practitioners in the field, many of our members describe their products as socially responsible investing, but I think we’re also seeing some people focus more on saying they're sustainable investing. Kind of thinking about planetary sustainability and emphasizing the long-term nature and orientation, often, of this kind of investing. And I think a lot of people want to emphasize the impact, too; that at the end of the day, or at the end of our long term investing, we want to see the world become a better place, so that's been a focus as well.

I think no matter what we call it, there are certain values and criteria that we're thinking about. We're thinking about environmental criteria, social criteria, corporate governance criteria. And I think there's also an impact -- thinking about the ultimate impact -- of these investment funds over time.

AL: Yes, such a wonderful, interesting, and complex area, and there is just so much terminology. Sometimes I kind of laugh because there are so many acronyms. SRI is the one that I think we all usually think about; but yes, there's ESG and so forth. I think the way I like to think about it is it's always about caring about stakeholders. About the impacts and the long term.

MV: Yes, we could start a new acronym right now. We would have stakeholder aware investing, or SAI, but we aren't going to go there.

AL: OK. Yes, let's not go there.

MV: We don't need any more acronyms.

AL: That's hilarious. We will restrain ourselves. There's been steady and occasionally skyrocketing growth in this space over the last decade or so, and I know that as of your latest Trends Report in 2016 the area had grown to $8.72 trillion. Is that correct?
MV: Mm-hmm. That’s correct.

AL: What do you think has driven its growth over the years? I think there are still a lot of people out there who mistake this as sort of a feel-good, or maybe a little bit of a holier than thou niche instead of viewing it as a legitimate tool for better investing that’s reached mainstream.

MV: Yes, it’s interesting. When we look at our Trends Reports over the years, and especially if we just think about the turn of the last century, starting the year 2000 or thereabouts, we would find that the area we call SRI, or ESG investing represented about 10-12% of the professionally managed assets in the United States, and that was fairly steady up through 2012.

And then in 2014 we noticed this really great leap forward where these sustainable and responsible investing assets increased 76% from 2012 to 2014, and more importantly, there was just growth in market share. When we looked at the overall universe of professionally managed assets in the United States, those SRI assets represented 18% up from this 10-12% we had seen in past reports. Then in 2016 we saw another increase in market share, so it’s now about 22%. So, more than one out of every five dollars are now invested in SRI or ESG products.

Yes, we have seen amazing growth. I think maybe one thing that’s going on is SRI has reached a tipping point. I think for many individual retail investors who were interested in this; if you had gone to your financial advisor 10 or 15 years ago and said, "You know, I want to invest my money in environmentally responsible companies," or, "I want to invest in companies and products that will help the local community," I think you would have, by and large, from most advisors gotten a message of, "Well, if you consider non-financial issues, it's probably going to hurt your returns." And that, sometimes, was a cover for financial advisors and investment consultants just not being familiar with the field.

And I think the sustainable and responsible investing field has now grown to such a point that people see it, and people see funds and products, and I think many individuals and institutions that are interested in this kind of investing are telling their advisors and consultants, "No, we know we can do this, and if you can't do it for us, we'll find another financial advisor or investment consultant to help us get launched in this kind of investing."

AL: That’s really great. I still remember in 2014 seeing that huge jump and that was just so exciting. For anyone who’s a fan of the area, that was a big deal. I suspect the political climate in the last year or so might be driving even more interest in sustainable, responsible, and impact investing for a variety of reasons. Do you have a sense that there’s been more growth under way since your last Trends Report? And when does the next Trends Report come out?

MV: I certainly don't see any retrenchment in the field. Everything I'm picking up is there is sustained interest. I'm seeing investment firms continuing to launch new products and platforms considering environmental, social, governance issues. Launching impact funds. There's definitely a great deal of interest in this area.
And I think some of the larger issues that concern us at the society are out there, and many investors, if they feel that the government and our public policies aren't addressing these issues, start thinking what [they can] do, through [their] investments, that they might actually feel a little more compelled to take a look at their investment portfolios. I think climate change, for sure, is one of those issues.

When people hear about Congress being tied up in knots and not able to go forward, when they hear about executive orders that are undoing previous executive orders that were trying to reduce greenhouse gas emissions; then there is a lot of interest among sustainable investors. "What can I do with my portfolio?" We're seeing the fossil fuel divestment campaign growing in terms of the assets affected. I think a lot of people want to invest in impact funds that will help bring renewable energy or increase clean energy alternatives.

So, that sort of thing is going on. I think it would be going on anyway, but there's a little more motivation when you see that the government seems to be stuck on a lot of these climate change policies and regulations.

**AL:** If I recall correctly, BlackRock's (NYSE: BLK) Larry Fink's [recent] letter [my coverage here] seemed to allude to the idea that perhaps the government wasn't quite up to speed on some of these things, so investors are going to get in there more strongly and try to get some constructive things going in these areas.

**MV:** Yes, and I think Larry Fink said that how money managers deal with climate change and climate risk is going to be a way you can measure the quality of investment managers. That's going to separate the good investment managers from the mediocre. That was an interesting point, I thought.

**AL:** Yes, that's a great point. There are so many ESG factors that investors can look at. I know some would argue that there are too many or that investors don't always focus on the appropriate ones; and some issues are more material for some industries than others. Do you have a feel for whether some are universally important for companies across the board? For example, my own hunch would be that high levels of diversity in the workforce and on boards of directors might imply a best-in-class company that could produce better investing outcomes, and that that might be the case across industries. Am I on the right track?

**MV:** I think you are. I would say climate change is going to affect every single company (some more than others if they have very climate-intensive products), but I would agree that the issue of diversity and how you treat your human capital is critical to every company.

Some of the most interesting studies about the importance of considering ESG factors focus on that question of gender diversity and other types of diversity. It makes sense that if you have a very homogenous group running a company, it's easy to fall into groupthink. It's hard to think outside the box, just because you have a certain experience if you all are white men, for instance, so it helps to bring in people who have had different life experiences based on their race, ethnicity, gender, overall life experience.
It's good to have more diversity on boards, in senior management; and those companies, when various studies have been done, do seem to outperform more homogenous companies on several financial indicators.

**AL:** Awesome. Yes, there is just great research about the whole idea that groupthink is actually a negative, so it's a beautiful thing to have a diverse workforce or, like you said, executive team, or board of directors, and I always like to see that when I'm looking at companies.

Speaking of diversity issues, I see that US SIF has recently released a report on investing to advance women. It goes without saying that that's a very timely and important topic right now. Could you give us some information about some of your observations and recommendations for investors in that report?

**MV:** Sure. One of the things we did was pull together some of these studies that showed why it's important, from a business perspective, to have diversity, and to think about [whether] women are included at all levels of a company. We point out some of the products that are available across several different asset classes. There are mutual funds now that focus on companies that have a fairly high percentage of women on their boards and in senior management. There are loan funds that are specifically oriented to providing seed money to women entrepreneurs, whether in the United States or overseas. Microfinance funds.

There's really a range of products, and I've been struck with the MeToo movement. That the issue of sexual harassment is a moral issue, and it's also a business issue. I don't know if you've read Salma Hayek's story in *The New York Times* (NYSE: NYT) about the harassment she encountered with Harvey Weinstein...

**AL:** I did...

**MV:** ...when she was trying to make her wonderful movie about Frida Kahlo. And when I read her story, I thought, "How did she ever make that movie?" It was amazing that she was able to complete it. You just think Hollywood is a very visible industry, but what's happening in companies where there's a culture of sexual harassment; often it's hidden. But one thing that's happening is it's suppressing some of your human capital. Some of the women employees who have wonderful contributions -- or would have wonderful contributions -- are being stymied. They're leaving companies.

This, I think, underscores the issue of why it's so important to think about your employees as a resource. To think about diversity for successful companies and successful investments.

**AL:** Yes, that's such a good point; the whole idea of suppressing your human capital and suppressing people's potential. That is so true that those kinds of situations can really make it so much more difficult to succeed, and to shine, and to come up with great, innovative ideas. That's a wonderful point, and I'm definitely going to link to your report in this interview, so that people can take a look at it.

**MV:** Great. Thank you.
AL: Lots of data shows that the argument that socially responsible investors can't expect a decent financial return is a myth, but that's a myth that has proven very difficult to shake. I recently saw some survey data that implied that even millennials who are more naturally attracted to this area still think there's a financial trade-off involved. Do you have any thoughts on reassuring people that doing good and doing well aren't necessarily mutually exclusive?

MV: It's interesting. You're talking about the various terms for this field of investing. Sometimes it's a question of [whether] people approach the investing from their ethical values, so people talk about values investing. And then some people emphasize more the financial value and they're considering environmental, social, governance risks. But I think the two approaches are really not all that different. They are connected, because companies that are responsible, that are good corporate citizens, that are valued in their communities, are just going to have an easier time of it. They probably aren't going to encounter major lawsuits. If they're thinking about environmental issues and energy conservation, they're going to be saving some resources.

It makes sense that companies that have better profiles on environmental, social, and governance issues are probably going to perform better over the long term than their counterparts who are less aware and, yes, study after study has shown that. I think there's probably been this feeling that financial returns are divorced from ethical values, and I think that's just not true, and maybe people can't believe that. It almost seems too good to be true that you can do good and do well financially.

AL: Yes. There's so much risk mitigation involved [as well as] just unleashing opportunities and innovation; but it is interesting that it still gets that very strange view that you can't do good and do well at the same time. It's not too good to be true.

MV: Right.

AL: I totally agree. We're individual investors here at The Motley Fool, so I was wondering [if] you have any favorite stocks of your own that you think rank highly in the responsible or ESG area?

MV: I'm going to duck that question, but I would say please feel free to visit our website. We have a site where we list the mutual funds that are offered by our members. You can look up how the managers for those funds select companies. What ESG criteria they consider. And you can look at the prospectuses for those funds and see which companies they are betting on. We've got a lot of terrific money managers among the US SIF membership and I would defer to their analysis.

AL: You don't want to pick any favorites? [laughs]

MV: No, I'm not going to do that.

AL: And you don't want to pick on any that you really think are terrible?

MV: And you know, one more thing I will say. I think there is generally a view among our membership that there's no such thing as a perfect company. You can look at the ESG
profile of the company. You may choose to underweight it in a portfolio if it's got some issues. But there's also a feeling -- certainly with equity funds -- that it's also important to talk about engagement with companies. How do you interact with them, encourage them to pick an area where maybe they're mediocre, and see if you can make them better? Make them better long-term investments.

I think a lot of our members would emphasize the importance of advocacy. The importance of voting their shares at the company in such a way that they are delivering a message to the company management and board about the best policies for moving forward.

AL: I've definitely encountered that in my own research. In my own analysis. Like absolutely there's no perfect company, and yes, sometimes you do just have to weigh those pros and cons. I also love your point about the idea of engagement and trying to make companies better. I've definitely also thought about the argument that if there's nobody there to engage and vote about these things, nothing's going to change for the better, either.

And I know that BlackRock has been saying that it's going to do a lot more voting on issues like we were saying (about climate change, diversity, and that sort of thing).

MV: You know, it's funny. I think that proxy voting, in a way, has been around forever, and it seems like rather a dull issue, maybe, to some. But I really think it's the next frontier in sustainable and responsible investing. That we've had a lot of very large money managers saying that they are looking at ESG risks. Some of them say that they are engaging with companies in their portfolios; but, when we've looked at their voting records, it seems to be almost always automatically voting with management of those companies.

So, there's definitely been some pressure growing, I think, to get these large fund managers to practice what they preach in their proxy-voting decisions, and it seems like it's starting to change. That's been rather been rather exciting to see -- some interesting votes over the last year at company annual meetings.

AL: Yes. For many years, I've been sort of an SEC filings geek, and I always loved the shareholder resolutions in the proxy statements, but they would hardly ever get any meaningful percentages of votes. And here, lately, stuff like ExxonMobil (NYSE: XOM); their 67% [of shareholders] voting for climate change disclosure. I believe those are the figures. [AL note: I double-checked, and the vote was actually 62.2%].

MV: Yes.

AL: I just about dropped out of my seat. I was excited, but if five or 10 years ago, someone had said to me, "Do you think that could ever happen," I'm not sure I would have said "Yes, in five years that will happen." It seemed very far away. And it just feels like they're waking up and being like, "OK, we do have a responsibility to pressure companies, or encourage companies to deal with these issues." It's kind of a beautiful and exciting time to be an owner.
**MV:** Yes, it is exciting. I think for your Motley Fool members who own individual shares directly, I know it can seem overwhelming. I have been in this position, too, and, "Oh my gosh, another proxy statement has come in the mail." You have to try to pour through it and meet the meeting deadlines. But it is important, and hopefully will seem more worthwhile if you know that it's not just you with your maybe relatively small holdings of shares. There's some very large money managers that maybe are joining with you and sending a similar message.

**AL:** Absolutely. I think I forgot to ask this question before, so I'm going to circle back.

**MV:** OK, we'll splice it in.

**AL:** Circle back and splice in. It seems like the wind is at the industry's back, but what are some challenges that you see as possible challenges for the industry?

**MV:** I would say one challenge, in a way, is that this space has grown so much in the last four years, and there is some questioning. What does it mean when a very large investment management firm that is a fairly recent entrant to sustainable and responsible investing, or ESG investing ... what are they really doing? Can we believe them when they say they've carefully considered environmental, social, and governance risks?

So, I think that's why we're seeing attention paid to how these firms are voting their shares at these companies. Are they backing up their statements about looking at ESG issues and ESG risks with the way they're voting, which is a very public act? We can look up these funds and see how they're voting. I think that's an interesting issue to watch.

And I'm expecting as we gather the research from our 2018 survey that we might see more deepening of SRI practice. That we'll see firms that maybe were just looking at environmental, social, and governance issues and the investment process. Also thinking about engagement with companies. I'm hearing more of that going on.

I think another issue is how do you measure impact? How do you tell the story of impact? We're seeing a lot of our members -- who have been active in this field for a long time, as well as newer entrants to the field -- thinking how we tell that story. Why does this make a difference? Is there any kind of standardized way to report on impact? I think the answer is probably no, but it's still important to say what we have done with this loan fund. If we're invested in public equities, can we point to our advocacy or our voting decisions? Can we show how companies may have changed as a result of our engagement? Those are, I think, interesting areas where new challenges will continue to see the field evolve.

**AL:** It's very exciting. My last question. I know that I still occasionally do hear people say to me that they just don't believe in it. They don't think it matters. I was wondering. When you encounter folks who are still naysayers about the SRI/ESG field, what is your response to them?
**MV:** I think I might be tempted to say that even if they don't believe in that, they're benefiting from the actions of others who do believe in it. I think of our many member firms who have been active over the years in dialogue with companies and their portfolios have been encouraging companies to improve their practices. To diversify their boards. To improve labor conditions in their supply chain.

And companies have changed as a result of these engagements. Sometimes they've changed as a result of shareholder resolutions passing and getting majority support. I suppose one way to answer the naysayers is to say, "You may not think you're investing in an ESG fund or an SRI fund, but you are benefiting from the actions of SRI and ESG investors."

**AL:** I love that response. That's very thought provoking. It does make you think about all those things that go on behind the scenes that we're not always aware of. That's amazing.

Well, thank you so much for joining us, Meg. This has been a great conversation.

**MV:** Great. Thank you so much, Alyce. My pleasure.