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Socially responsible investing makes an impact

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Mark Callaway

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As the world's population continues to grow, there are heavier burdens on its resources. But investors can help ease the burden by integrating environmental, social and governance (ESG) factors into their own investment process, said Mark C. Callaway, senior vice president and financial advisor of The Indigo Group at Morgan Stanley.

Within the last decade, companies have started reporting on their environmental footprints, including factors such as where and how their materials are produced, and their governance structure and workplace culture, he said. Investors themselves, who are becoming more socially responsible, are asking these and other questions to determine where best to put their dollars, he added.

“How is the company being managed? Is there board diversification, women in the C-suite, diversity of staff?” Callaway said investors are asking. “It is becoming important for companies to be transparent, and important to investors to know the impact of the companies they are investing in.”

ESG investing, also known among other terms as sustainable or responsible investing, is also one of the fastest-growing asset investment categories, with $6.6 trillion in assets in 2014, up from $3.5 trillion in 2012, according to US SIF: The Forum for Sustainable and Responsible Investment. By employing ESG factors, sustainable investment practitioners attempt to limit risk by minimizing harm to people and the planet, while investing in companies working toward productive and sustainable outcomes.

Many of the ESG criteria that companies adopt — such as attention to workplace safety and benefits, community development and board diversity — actually benefit the company itself along with the investors, said Callaway. “Studies show those companies that adopt those changes [to address the criteria] tend to have better stock performance,” he added, “having embraced best practices in their organization.”

A group of funders, investors and entrepreneurs have formed the Georgia Social Impact Collaborative (GSIC) to build relationships among those interested in ESG investing, noted Callaway.

eVestment, which specializes in institutional investment data and analytics, has expanded its ESG data collection efforts to satisfy the rising demand from investors for greater transparency into the managers’ responsible investing practices, said Maria Simon, eVestment Segment Marketing leader. “Data is one of the biggest challenges on the ESG front, and we have felt strongly about taking the initiative on,” she said. “As [data] becomes more prevalent, we can measure more accurately what it means to have an ESG approach to investing.”

eVestment also is making a bigger effort to share that data with clients. “In our database, if you have an interest in ESG integration, you have a list of managers who fulfill that requirement, and investors and consultants are able to look at these things,” she said.

According to information reported to eVestment, there are 33 active asset management firms located in Georgia which manage 314 investment products. Of these 314 products, 22 are currently managed with ESG considerations, 165 are not, and 127 didn’t provide an answer.

Four firms, all located in Atlanta, manage all of the 22 products with ESG considerations: including 19 equity products, two fixed income products and one balanced/multi-asset product.

While some have called using ESG factors in investing a trend, Simon said she sees the practice becoming more mainstream and growing. “Outside of performance, investors have other goals and those include ESG in a lot of cases,” she added. “Younger generations are more in tune with things like that, and there is more and more pressure on people with large assets to make an impact on the world.”

That impact extends to seeing a higher return on investment, said Shawn Lesser, co-founder of Big Path Capital. “We look at it as smarter money. You can maximize your impact and your return with these investments,” he said. “In the past, people looked at these investments as a trade off with a lower return. Now you are getting a good return and, oh by the way, they have a social or environmental impact.”

In March, his company hosted an event for the Chartered Alternative Investment Analyst (CAIA) Association, where he said close to 100 investors held a earnest discussion about ESG investing. “A lot of people are getting interested in this here in the region,” he said, adding that if he had hosted a similar event a decade ago, “I wouldn’t get five people there.”

ESG investing is in demand from the public, Lesser said, and advisors are smart to become experts in this area. “If you don’t, it is going to be a disadvantage for you,” he advised. “Now, everyone is asking [about the issue] so [investment advisors] better to get up to speed.”