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Ballooning SRI Market Demands Investment/ Mission Alignment

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Socially responsible investing (SRI), environmental, social and governance (ESG), and impact investing assets are expected to more than double over the next decade. But plan sponsors pursuing these investments need a clear process for analyzing opportunities and determining the best mix of investment strategy and fund mission—a requirement that can be more challenging than some investors expect, according to a number of experts with whom *FEI* has spoken.

Recent student protests at **Harvard University** and the **University of California** have added pressure on investment committees to consider social investing, in addition to maximizing investment returns. A recent decision by the **Rockefeller Brothers Fund** hints at the difficulty faced by funds seeking to serve two masters—a drive to fulfill a social mission and a need to maximize investment returns. The $840 million fund opted to end its seven-year relationship with outsourced CIO provider **Investure** to pursue a larger social investment footprint than the firm was willing to accommodate (*FEI*, 5/1). The fund has a long-term target of 10% of its assets to mission-driven investments. Under Investure, its portfolio only accounted for 3% of mission-driven investments. The fund now works with Perella Weinberg Partners.

Socially responsible assets under management are projected to grow to $1 trillion over the next decade from roughly $400 billion today, according to a recent **JPMorgan** study, titled *Impact Investments: An emerging asset class*, while the number foundations and endowments considering environmental, social and governance factors rose to 95 in 2012 from 58 in 2010, according to a 2012 survey from the *Forum for Sustainable and Responsible Investment*.

“For investment committees, they often think that there’s a trade off from achieving investment and [reaching] mission returns,” **Jane Ambachtsheer**, partner and global head of responsible investment at **Mercer Investments**, told *FEI*. “On the performance side, the evidence suggests that in integrating ESG considerations, there’s certainly no evidence that you lose value.”

Jane Ambachtsheer

A 2012 study from **Deutsche Bank**, entitled *Sustainable Investing: Establishing Long-Term Value and Performance*, that examined nearly 200 academic papers and studies on sustainable investing found that social investing does not detract from investment returns and have a neutral impact on returns compared to other investments. The study also found that most investment managers consider the “best-in-class” approach and will eventually consider ESG practices in their future methodology.

Proposed Best Practices

“We think the first step in developing an approach [to SRI investing] is to establish your beliefs and objectives,” said Ambachtsheer. Another step to provide mission alignment with your investment objectives is to find an advisor who will help you align your goals. “The key advice is to know what you’re going to achieve before you design your implementation program.”

Mercer’s approach provides a comprehensive review that rates managers based on their Mercer ESG scores. The scores rate investment managers across the board on their beliefs and are based on whether managers

represent a particular fund's beliefs and how they compare to the universe of managers. This evaluation helps assure that an investor's beliefs and objectives flow through to its asset allocations and asset classes. Evaluating where a fund stands on its asset allocation and where it can allocate toward social-minded investments gives the fund time to revisit, re-evaluate and consider the other options out there, Ambachtsheer explained.

Tracy Kartye, director of social investments at the $2.7 billion **Annie E. Casey Foundation**, is responsible for tying a good performing fund with the foundation's mission. She works with the investment team to focus on choosing funds that fit its investment thesis, as well as its grant-making team to align with the fund's cause. "Once we determine whether there's a financial return, then we look at social return," said Kartye. She added that like any other investment, her team considers the return profile, exit strategy, fund manager experience and track record.

While Ambachtsheer recommended a long-term strategy that provides returns in a holistic way, **Christina Alfonso**, founder and ceo of investment and advisory firm **Madeira Global**, highlighted the advantages to short- and intermediate-term approaches. "Today, I think it is important to focus on finding clients with liquidity, who are focused on fixed income, and providing short-duration investment opportunities so as to give them that opportunity to say that I'd like to test impact investing." She added that short and intermediate investments are more reasonable to ask of clients if they are giving consideration to socially responsible investing for the first time. "In essence, we focus on traditional investment structures that they are already familiar with, something we believe would be a tremendous service to the industry as a whole if more broadly applied."

Ambachtsheer added that the biggest pitfall for a fund sponsor is knowing how to define what socially responsible investing is to them and to be aware of what options are available. This requires education through case studies, research, talking to consultants and managers. Socially responsible investing is not just about negative screening, according to Alfonso. Many funds look at clearing their portfolios of tobacco, firearms and alcohol, for instance. There is also positive screening that requires a proactive approach to looking at certain industries that align with the fund's values. Another consideration is whether the fund wants to look at impact first, which essentially means there is a clear social return, or financial return first, meaning that the foundation will become less donation dependent and more self-sustaining.