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Investors see strong returns, positive impacts

Ethical investing now a $1 trillion business

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Jun 4, 2021

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As recently as five or so years ago, investors were not choosing to put their money where their beliefs were. The reason: socially responsible investing didn't provide the level of returns they could earn with traditional investments.

That's changed, said Lindsey Simek, a financial advisor at Colorado Springs-based Capstone Investment.

Also known as sustainable, ethical, responsible or ESG-based investing (the acronym stands for Environmental, Social and Governance), values-based investing is becoming extremely popular, Simek said.

The assets of responsible investing funds broke the $1 trillion mark in the first quarter of 2021, according to Seeking Alpha, a content service for financial markets.

"Clients are beginning to demand it," Simek said. "If you don't have some ESG in your portfolio, you're really missing out."

Investors no longer have to give up returns to have a strong ESG portfolio, she said,

"I would never tell clients that ESG is going to do better," she said, "but it can compete. It definitely has taken its place in the market."

As with traditional investing, returns depend on an investor's risk level and the performance of the market, but a study released earlier this year by the Morgan Stanley Institute for Sustainable Investing found that ESG-focused funds outperformed non-ESG peer funds by a total return of 4.3 percent in 2020.

The Morgan Stanley Institute surveyed 800 investors in 2019 and found that climate change topped their interests, followed by plastic reduction and community development.

Other areas of interest were a circular economy — which aims to design out waste and pollution, keep products and materials in use and regenerate natural systems; sustainable development; gender and multicultural diversity; and faith-based values.

Bruce Bruinsma founded Envoy Financial, a Biblically responsible investment firm, 15 years ago, when investors were starting to ask how they could support businesses that reflected their values.

Now the firm has become a leading provider of Biblically responsible investment approaching $1 billion in assets.

All investments have impacts, said Stephanie Gripne, founder and executive director of the Impact Financial Center in Denver, a nonprofit that trains and activates individuals and organizations to become impact investors.

The United States lags behind Europe in considering the impact of investment, she said.

“The pension fund for the country of Norway won’t even take a meeting with you if you don’t have excellent scores on ESG, because they don’t look at it as a trade-off, they look at it as risk,” she said.

A 2018 Morgan Stanley report found “sustainable funds consistently show a significantly lower downside risk than their traditional counterparts, regardless of the asset class held” and were less risky in turbulent times. Morgan Stanley’s 2020 Sustainable Reality report, which built on that research, also pointed to lower risk, finding: “During the prolonged 2019 boom, sustainable equity and taxable bond funds outperformed their traditional peers. And they continued to do so during the first half of 2020, weathering the unprecedented global shock triggered by the COVID-19 pandemic better than traditional funds.”

RESHAPING THE MARKET

Some investors are particularly interested in focusing on companies that are working in the climate control realm, eliminating pollution and reducing their overall carbon and water footprints, Simek said.

“You can also look at companies that maybe haven’t gotten there yet but are taking active steps and have a plan to get there,” she said.

Investors who focus on social impact look for companies that stress gender equality, or those that are doing their part to reduce poverty or hunger, she said. In the governance arena, they examine factors such as the composition of an organization’s board — “that your board is diversified and your management diversified,” she said.

Simek said women and Millennials are passionate about ESG and are helping to reshape the market.

Capstone’s client portfolios range from 100 percent ESG to 10-20 percent, she said.

"We have a lot of clients that don't even know the acronym, but they'll say they do not want to have any investments with anything to do with oil or tobacco or alcohol or adult entertainment," she said.

A good place to start with ESG, she said, is with an exchange-traded fund like iShares ESG Aware MSCI USA ETF (ESGU), which holds large- and midcap U.S. stocks with favorable environmental, social and governance practices.

There are many others to choose from, including iShares MSCI KLD 400 Social ETF (DSI), Vanguard ESG U.S. Stock ETF (ESGV), SPDR SSGA Gender Diversity Index ETF (SHE) and Invesco Solar ETF (TAN).

As with traditional investing, diversification is important in an ESG portfolio.

"I would not recommend just investing in one company because you like that company and what they have to offer," Simek said. "There's so many companies that are meeting ESG standards that you're able to have a variety of investments."

Morningstar provides investors with the Morningstar Sustainability Rating to help them evaluate how portfolios are meeting environmental, social and governance challenges, and Sustainalytics' ESG Risk Ratings help investors identify, understand and manage ESG risks to improve the performance of their portfolios.

BIBLICAL INVESTING

The Biblically responsible investment arena has grown significantly in the past five years.

"If you ask, 'Are there places now where we can have Biblically responsible investing and have reasonable costs and equal or better returns?', the answer is yes," Bruinsma said. "If you then further ask, 'Are there lots of options that fit into that category?', I think the answer would be not yet — but they're coming, and it's requiring a different approach to the investing process. But those changes are producing the better results that all of us are looking for."

BRI funds are screened for about eight different values that include alcohol and tobacco, abortion and lifestyle.

“That’s the part of Biblically responsible investing that addresses the question of what you want to avoid,” Bruinsma said. “But I think there’s another important piece: What is it that we want to embrace?

“We’ve created a private equity fund that is now investing in companies that have the values that we want to embrace as well as the investments that we want to avoid,” he said.

“We’re finding companies that can positively impact the community, our environment and the Christian community and at the same time have an economic return that makes the investment very attractive,” he said.

An example is a company that produces software which does Bible translation and also is used in the telehealth industry. Another company provides currency hedging for medium to smaller companies.

“The net effect will be that there will be savings in monies that they send overseas, whether it be for a mission organization or a secular organization, but it will hedge against the currency fluctuations that impact a lot of companies and give them more resources to be used for the growth of their company …,” Bruinsma said.

Investors also look for companies whose leaders and owners are committed to contributing some of their profits to ministry activities or good community causes.

Bruinsma started taking retirement plans to churches, nonprofits, Christian camps, rescue missions and mission organizations in 1991. Two years ago, he sold his firm to Harvest Investment Services, a Chicago wealth management company.

IMPACT INVESTING

Direct impact investing in the United States goes back hundreds of years to the Quakers and Mennonites who refused to invest in “sin stocks,” Gripne said. In the 1960s, it was a religious and social movement around South African apartheid.

“We’re kind of in our third wave,” she said.

Gripne, whom Forbes magazine called “the Steve Jobs of impact investing,” founded the Impact Finance Center, which provides impact investment education and advisory services, in 2012 as a partnership between the University of Denver Daniels College of Business and the Sustainable Endowments Institute, a project of Rockefeller Philanthropy Advisors.

Most investors learn about investing from Wall Street, “and Wall Street has a conflict of interest,” she said. “There was no place to get what I would call non-conflicted or unbiased or trustworthy investor education from organizations that don’t have an agenda other than helping the person invest in what they care about.”

The Impact Finance Center focuses on raising awareness of impact investing and expanding the set of impact investors and investees; advancing academic understanding of impact investment; and sharing expertise through consultation.

“We’re looking just to provide honest investor education,” she said.

Gripne, who holds a master’s degree in wildlife ecology and a doctorate in forestry, said she has never taken a business class. She learned about investing through experience.

She acquired her first stock when she was 16 years old. She bought Enron — and she lost her money. But she worked with her father, who taught her about direct impact investing.

As Gripne sees it, “every single dollar that you spend, whether you give it away, use it at the grocery store or put it in your 401K, is an investment.” But “philanthropy is an investment with a negative 100 percent financial return.”

The center works with high-net-worth individuals, wealthy families, foundations and companies. Impact investors can put their money to work in several ways.

“You have to decide if you’re a do-it-yourselfer or you want an advisor,” Gripne said. “If I’m good at researching, I can set up an account at Fidelity, Schwab or Vanguard. The next [option] is like a robo-advisor, and then the third option is that you pay an advisor.

"If you're super brave, there's now a possibility of doing a self-directed IRA or a self-directed 401K. … If you go to a custodian that offers those services, that would allow you to invest in affordable housing in Colorado Springs or a small business in Colorado Springs," she said.

Companies are becoming some of the biggest impact investors, Gripne said.

"We're now starting to work with low- to middle-income investors too," she said.

The center, which is supported by donations, offers some services for free and charges modest fees for others, such as searching for financial advisors.

To increase the flow of resources to organizations that have a positive impact on the environment, economy and society, Gripne created CO Impact Days, a statewide marketplace for impact investing that ran in 2016, 2017 and 2019 and aimed to catalyze $100 million of investment in social impact ventures.

Over Impact Days in 2016-2019, the project showcased more than 150 social ventures and connected them to mentors, partners and impact investment capital.

According to the organization's website, results so far have been the completion of $261 million in direct impact investments.

Gripne hopes to replicate and expand the concept by 2030 into the National Impact Investing Marketplace, which will be an accelerator for impact investment.

A hundred years ago, people practiced relationship investing for the good of the community, she said. A farmer whose crops were ready would ask for an extension on his credit at the local market. The proprietor, who likely had known the farmer's family for generations, would grant it, thus investing in the farmer's success.

"That's all we used to do," Gripne said. "Isn't it strange that we made it complicated, and now most of us can't look someone in the eye around our 401K or IRA? Now we just have to go back to the olden days. It shouldn't be hard."

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Jeanne Davant is a graduate of the University of North Carolina. She worked for daily newspapers in D.C., North Carolina and Colorado, and has taught journalism and creative writing. She joined the Business Journal in 2017.