

ESG Advisor Hacks

Simple Tips for Mastering ESG in Your Practice

Everyone knows the statistics – assets in ESG and responsible investing portfolios are growing faster than a weed in July, at last check making up more than \$40 trillion of global assets under management. Yet many advisors feel adrift when it comes to guiding clients in ESG investing.

We asked experienced advisors to provide their best responses to three common advisor concerns: how to start the conversation about ESG issues with their clients; how to identify and sell ESG products; and how to handle tough questions from uncertain clients.

Their main message is to start somewhere, because providing clarity and guidance on ESG is a huge opportunity to differentiate yourself. A recent investor sentiment study from Allianz also highlights the need for advisors to start the conversation. “Most respondents said that they wish there was more information available about this type of investing – but they also recognize that it would take a lot of effort for them to do the research on their own. As a result, over three-quarters of clients (76%) expect their financial professional to inform them about the business practices of the companies they invest in.”

Jump
to a
section

1 “YOU HAVE TO ASK THE QUESTION” Hacks for Mastering the ESG Conversation

2 “FIND YOUR FOCUS” Hacks for Selling ESG Products

3 “A CRUCIAL DIFFERENTIATOR” Hacks for Managing the Perception of ESG Investing

Want more ESG intelligence that is customized to your practice?
Check out our [website](#) or contact us at ESGisNotaTree@purcellcom.com

1 “YOU HAVE TO ASK THE QUESTION”

Hacks for Mastering the ESG Conversation

Advisor Concern	Solution
“Clients aren’t really asking me about ESG investing.”	<p><i>Don’t confuse lack of awareness for lack of interest.</i></p> <p>Sonya Dreizler is a financial services consultant and head of Solutions with Sonya. As she says in her excellent primer on the subject, “Most clients aren’t asking about ESG and impact because they don’t know it’s a possibility.”</p> <p>Dan Tobias, CFP® and head of Passport Wealth Management, agrees. “You have to ask the question. Clients rarely ask, but I’ve found that every client is interested in the conversation.”</p>
“Clients have expressed an interest, but they’re not sold that ESG investing is a good strategy. Honestly I’m not sure I’m sold either.”	<p><i>The case for ESG investing is well established.</i></p> <p>Here’s just one of the recent studies demonstrating the business case for ESG investing.</p> <p>“There is a growing evidence base that there is a connection between ESG and alpha generation. Advisors need to be up to speed on this research,” says Julia Enyart, head of Sustainable and Impact Investing at Glenmede Trust Company.</p> <p>Jason Ray, head of Zenith Solutions, strongly agrees. “ESG factors are important in corporate performance. Understanding these factors is a great investment of our time and energy because it is where we can generate alpha.”</p>
“How do I structure the conversation?”	<p><i>Start somewhere familiar.</i></p> <p>Farzana Hoque, ESG/Impact Consultant for US SIF, points to their Advisor Roadmap. “If you are new to sustainable investing and your client is unfamiliar with the topic, raise the subject during a broader discussion about your client’s philanthropic and volunteer interests.”</p> <p>Thomas Hlohinec, head of Rise Financial Partners, says he will raise the issue of ESG investing as part of a strategic charitable giving plan.</p> <p>Enyart recommends creating a “values questionnaire” to identify specific client interests and concerns. Questionnaires are excellent tools because they both guide the client’s thinking and let them lead the conversation.</p>
“I don’t know how to fit ESG strategies into our existing plans or packaged products.”	<p><i>Start small and build for the future.</i></p> <p>Bill Holiday, of AIO Financial Planners, suggests incorporating an ESG index fund at the margin of interested clients’ portfolios. “We’ll do a mixed portfolio where we might place, say, 5% of clients’ assets in an ESG ETF. It’s a trial that gives you and the client a chance to see an ESG strategy in action.”</p> <p>RJ Devick, Partner at Bond & Devick Wealth Partners, finds ESG to be an effective way to capture interest among younger prospects. “We design model ESG portfolios for smaller portfolios that don’t meet our \$1M minimum. These are a good way to introduce younger people to ESG investing. When they inherit money or make money in the future, they will want to work with someone who helped them with ESG investing when they were young.”</p> <p>Austin Wilson, Head of Active Ownership at Aperio, strongly advocates for proxy voting as a first step for wealth managers. “Voting company proxies – and explaining to your clients how you voted and why – is the easiest entry point for wealth managers because it has no immediate impact on performance.”</p>

Want more ESG intelligence that is customized to your practice?
Check out our [website](#) or contact us at ESGisNotaTree@purcellcom.com

2 “FIND YOUR FOCUS”

Hacks for Selling ESG Products

Problem	Solution
“How do I explain the various strategies and approaches of these different products?”	<p>Don’t.</p> <p>Doug Lynam, Principal at Long View Asset Management, advises finding an ESG focal point. “Don’t try to be all things to all people. Find one or two aspects of ESG to target, and an audience that fits that target. That makes it easier to be trusted when proposing solutions.”</p> <p>Thomas Hlohinec, head of Rise Financial Partners, does this for his clients as well. “I try to focus my clients on health care and clean water issues – things that we all agree make the world a better place. They’re easy to talk about and there are specific investment products that match those interests.”</p>
How do I talk about risk?	<p>ESG is fundamentally risk averse.</p> <p>ESG strategies have grown in part because the information age has highlighted the way bad corporate decisions eventually come home to roost.</p> <p>Jon Hale, Global Head of Sustainability Research at Morningstar, writes eloquently about this. “Investors need to know how a company is addressing climate risk to assess the long-term risk of owning it. In other areas, like human capital management, product governance and customer relations, investors want greater transparency because in this age of the internet and social media, missteps in these areas can cause major reputational damage that can harm the business and investor returns.”</p>
How do I explain costs?	<p>Tell the client what they’re paying, and what they’re paying for.</p> <p>The advisors we spoke to told us that the cost on ESG-oriented products isn’t different enough from traditional products to be a meaningful impediment.</p> <p>Bill Holliday, of AIO Financial Planners, also points out that ESG investing represents an efficient way to drive impact for investors who want to be part of the solution. “Our clients are very focused on cost. We explain that active ESG strategies may be worth paying for because they put more effort into understanding ESG factors that impact stock price most, or advocating for better corporate decision making. They add value by recognizing long-term risks and opportunities.”</p>
How do I report on them?	<p>Gather the news.</p> <p>Jason Ray, head of Zenith Solutions, simply sets google alerts for major company holdings. The cost in time and money is marginal, but the payoff can be big. “It can be frustrating that there isn’t a clear standard for ESG data and news reporting. But that creates a huge opportunity to distinguish ourselves with clients.”</p>

Want more ESG intelligence that is customized to your practice?
Check out our [website](#) or contact us at ESGisNotaTree@purcellcom.com

3 “A CRUCIAL DIFFERENTIATOR”

Hacks for Managing the Perception of ESG Investing

Problem	Solution
“My clients think this is all hippie nonsense.”	<p><i>It’s not that far out there.</i></p> <p>Jon Hale, Global Head of Sustainability Research at Morningstar, argues that investors have always incorporated their values. “Expressive benefits — What do my investments say to me about myself and about myself to others? — and emotional benefits — How do my investments make me feel? — are sought by all normal investors.”</p> <p>In fact, says Doug Lynam, Principal at Long View Asset Management, early adopters are finding that incorporating ESG into a practice is a no-brainer. “ESG is a great differentiator for advisors. It’s where the industry is going, and it’s what the clients are asking for. Why wouldn’t you incorporate ESG into your practice?”</p>
“I have a fiduciary duty and I don’t know how social impact fits into that.”	<p><i>ESG data provides a window into unseen risks.</i></p> <p>Jason Ray, head of Zenith Solutions, says “I explain to clients that ESG factors are a key part of our due diligence process,” since ESG risks and opportunities play such a meaningful role in company and stock performance. “My clients get that it’s important for investors to look at this information.”</p>
“My firm is worried that an ESG product line would require operational changes we’re not prepared for.”	<p><i>Become a power user.</i></p> <p>“Our ESG practice got started because a small number of team members – maybe 2 or 3 out of 60 – became power users of ESG information and products,” says Julia Enyart, head of Sustainable and Impact Investing at Glenmede Trust Company. “They became experts, and slowly introduced ESG strategies to their clients and to the firm. In the end, their expertise acted as a crucial differentiator that drove client growth for them.”</p>
“What are the risks?”	<p><i>Be sure to separate “value” and “values.”</i></p> <p>Dan Tobias, CFP® and head of Passport Wealth Management, notes that there are a lot of potential minefields when talking about ESG factors with clients, since everyone has their own ideas about “values.” “You don’t want to have to know everything about every holding in every portfolio” from an ESG point of view, he says. “But there’s a lot of space for all sides to focus on the potential value.”</p>
“What can I say to clients about why we are offering ESG strategies?”	<p><i>Focus on thriving in the future.</i></p> <p>ESG strategies are essentially looking for the winners of the future. RJ Devick, Partner at Bond & Devick Wealth Partners, argues, “I believe our portfolios are giving investors an opportunity to benefit from change. I don’t think our investors benefit in the long run by owning, for example, old technologies that pay a high dividend if their future prospects are bleak. I would much rather invest in the future not the past.”</p>
“How do I handle clients who might wonder if they are doing enough in their portfolios?”	<p>Bill Holiday, of AIO Financial Planners, points out that just because a client isn’t investing fully in ESG strategies doesn’t mean they’re not making a difference. “Clients shouldn’t view investment in traditional strategies as a bad thing. It’s neutral – more like sitting on the ESG sidelines.”</p>

Want more ESG intelligence that is customized to your practice?
Check out our [website](#) or contact us at ESGisNotaTree@purcellcom.com