PURCELL COMMUNICATIONS

MARCH 2020

# Values-Based Investing*

## A Huge Opportunity and a Compelling Challenge to the Investing Industry

Values-based investing is the future of active investment management.

Skeptical?

"To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate." Laurence Fink, Chairman and CEO, BlackRock. That's BlackRock, the largest investment manager in the world.

Fink's decision to make BlackRock a vocal leader in the values-based investing space has caused quite a stir, but in truth it's the culmination of a socially conscious investment trend that has gained extraordinary momentum in the past 5 years. Values-based investing can mean a lot of things, big and small: environmental issues, religious concerns, gender diversity, etc. But at heart, it means using your money to advocate for the things you really care about. The trend has already transformed the way asset managers, advisors, and institutions invest. But importantly, it's also impacting the way professionals and everyday investors *talk* about investing.

Basing investment decisions on personal values isn't your dad's way to invest, and values-based investors aren't your dad. Building bridges to those investors, and maintaining those relationships over time, will demand a lot of asset managers and advisors.

**** As you'll see**, there is a lot of disagreement about what to call socially responsible investments. For now, we are choosing the generic label "values-based investing," despite receiving lots of feedback from professionals who argued — passionately — for other terms such as sustainable, ESG, or impact investing.*

# THE OPPORTUNITY

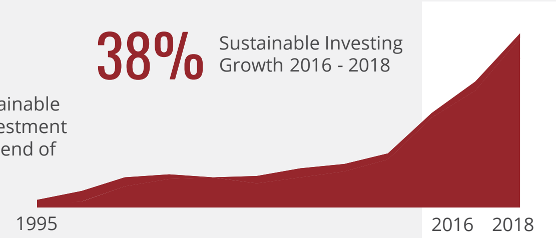
A collection of evidence that values-based investing is next

Assets in values-based investments are large and growing.

**26%**

$12 trillion in Sustainable & Responsible Investment (SRI) Assets at the end of 2017

**38%** Sustainable Investing Growth 2016 - 2018




*Source:* *Forum for Sustainable and Responsible Investment (US SIF)*

There's a growing awareness that values-based approaches can have a positive effect on risk and return.

**9 in 10**

ESG [one type of values-based strategy] factors show positive results

*Source:* *Principals for Responsible Investment*

**86%**

of the companies in the S&P 500 Index® published sustainability or corporate responsibility reports in the year 2018

Corporate America is already racing to respond.

*Source:* *Governance & Accountability Institute, Inc.*

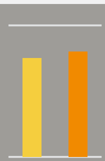
Advisors are being pressured by their clients to consider values in their investment plans.

**200%**

increase in responsible investing conversations from August 2017 to August 2018

**73%** 2015  **81%** 2018

"I want my investments to make a positive impact on environmental sustainability"

**75%** 2015  **80%** 2018

"My investments should try to make a positive impact on society"

*Source:* *Nuveen*

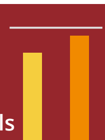
Governments are also getting in on the act.

**$32.6T AUM**

could be subject to pending regulations or regulations in discussion, as of 2018, as regulators ramp up scrutiny on the business of ESG investing

*Source:* *MSCI*

Depending on who you listen to, somewhere between $30 trillion and $68 trillion of baby-boomer assets will be inherited by millennials in the next few decades.

**78%** non-millennials  **93%** millennials

have a strong interest in responsible investing

*Source:* *Nuveen*

There's a sense that values-based investing has reached a tipping point.

**6 in 10**

professionals agree there is alpha to be found in ESG investing

**Nearly 2 in 3**

institutional investors believe ESG will become an industry standard within the next five years

**7 in 10**

individual investors believe it is important to make a positive social impact through their investments

*Source:* *Natixis*

# THE CHALLENGE

**Values-based investing proponents are having difficulty connecting to their best potential audience**

Here's the short version: The momentum behind this movement is powerful, especially among younger and more educated investors. But the values-based investing solution is only now starting to come into focus. And that's a big change for the asset management industry, which is used to speaking in a traditional voice about long-standardized investment practices.

We've talked often with clients about how communications techniques that built trust with a previous generation — authority, formality — simply do not work as well today. Particularly for millennials, trust is built through transparency, authenticity, and a sense of collaboration. This shift in expectations is a challenge for many traditional asset managers and advisors, but the challenge comes into sharper focus in the complex world of social responsibility. It's our view that, for the next 20 years, learning to build trust with values-focused investors is the defining communication challenge for the investment industry. Through extensive research, we've identified 3 specific problems the values-based investing community must address to tackle that challenge.

> *"Anyone who tells you that money is a commodity has never raised capital, done a deal, or had a partner. Money is always attached to people and people come with a variety of temperaments, time horizons, and incentives. A dollar that can walk tomorrow is less valuable than a long-term, committed, and trusted partner."*
>
> *– Brent Beshore, CEO, adventur.es*

## PROBLEM 1: MURKY TERMINOLOGY

Values-based investing suffers from a serious labeling problem. There is no standard — even among experts! — about what to call these investments or what they are supposed to be doing. For example, the commonly used term "SRI" stands for different things in different situations. For traditional asset managers, SRI stands for socially responsible investing. But committed SRI proponents have shifted the term to stand for sustainable, responsible, and impact investing.

What's more, values-based investing descriptions are applied to a wide variety of different investment strategies, pursuing a wide variety of social impact priorities. There is not yet a standard for defining and measuring "social impact."

Consider the following sentence: *(Select a random phrase from each drop-down list).*

"Our company has a strong commitment to SRI - sustainability, responsibility, and impact.

We care a lot about promoting women in business,

so we evaluate companies and invest in those that score high."

If you pulled randomly from the drop-down lists to complete that sentence, you'd end up with something that has probably been used at least once by an investment firm or advisor.

This variety of terms, and the inconsistent way they are used, creates confusion and a sense of disorder. Being clear and specific about what you mean when you use these terms — and what they might mean for your audience — is an essential stepping stone to creating trust when you communicate.

## PROBLEM 2 – EVOLVING CONTEXT

This garbled terminology hints at the fact that the values-based investing industry is rapidly evolving, and there's no end in sight. Innovative players are entering the marketplace, and established players are retooling. Companies are increasingly providing information regarding their practices. Investors are asking harder questions and voting their proxies. The concepts, products, and strategies of today are different from even 5 years ago.

Nowhere is this issue more visible than in the world of values-based investing measurement. Nonprofits, trade organizations, social scientists, institutional investors, asset managers, private companies, media outlets, and consultants — *to name just a few* — are actively generating new and better methods to evaluate companies on their social impact and/or measure the role that social responsibility has on risk and performance.

> *"Many investors ... see the RI label, and fear performance will suffer for the sake of impact. Strip away that label, though, and investors immediately see the financial value of its underlying principles, such as planning for sustainability and trying to avoid negative events."*
>
> *– Nuveen Fourth Annual Responsible Investing Survey*

Such variability is a good sign, because it means that values-based investing is attracting both assets and innovation. Understanding and explaining this data also provides advisors with a meaningful way to justify their fees to clients. But for the traditional asset management industry, which is used to presenting itself as serious, stable, and timeless, it's a big challenge. As we look across the landscape of industry communications, very little of this variety is openly discussed, making it difficult for investors to have confidence that they have found what they are looking for.

## PROBLEM 3 – STUBBORN PERCEPTION

As much as millennial investors appear to be bought in to the values-based investing concept, older investors remain in control of significant investor assets, and they are still skeptical. Many advisors and institutional gatekeepers also break along those lines.

The heart of the skepticism lies in a point of view, dating back to the 1980s, that values-based investments don't or can't perform as well as traditional investments. Advisors and others with a fiduciary duty worry that these strategies expose them to the risk of having to explain poor performance in the service of vague social goals.

These perceptions persist despite a slew of recent studies — such as this one from MSCI — showing that values-based investing has favorable risk/reward characteristics. These studies suggest that companies that aim to do good may in fact be better companies to invest in. Nonetheless, communicating to the skeptical remains a huge challenge for investment professionals.

> *"Institutional investors were initially reluctant to embrace the concept, arguing that their fiduciary duty was limited to the maximization of shareholder value.... But as evidence has grown that ESG issues have financial implications, the tide has shifted. In many important markets, including the U.S. and the EU, ESG integration is increasingly seen as part of fiduciary duty."*
>
> *– Arabesque, The Remarkable Rise of ESG*

# THE SOLUTIONS START WITH BETTER COMMUNICATION

**Positive examples of shifting the way you communicate**

Solving these key challenges will require more than a few nice words. But as content specialists, we know that terminology, context, and perception are challenges that communications practices are designed to address. What values-based investing needs is a communication plan: a tool to identify the stakeholders, understand their needs and concerns, and speak to them with consistent messages delivered in smart ways.

**For example:** Values investors, especially millennials, are collaboration-minded — they want to be a part of the journey. You can tap into that desire with regular communication that focuses not only on performance, but also on social outcomes. Your enthusiasm for value-based investing — expressed through reports, video scripts, podcasts, or other media — makes you more relatable to this audience. And opening channels for feedback, such as through surveys or social media, is a powerful way to enhance their emotional commitment to your brand and build long-term bridges.

**Another example:** Authenticity matters to this audience, and accusations of "greenwashing" get thrown around a lot. So traditional asset managers and advisors that are adding values-based investing to their brands *must* demonstrate authenticity. There are many long-honed best practices for doing so (see sidebar) but there are a few specific techniques we've seen industry players use successfully:

- Be radically honest about the challenge of participating in an evolving industry.
- Demonstrate your ability to listen, learn, and change.
- Reveal your thinking. What are your motivations? What are your views of new innovations? How do you change course when you are proven wrong?

**Another example:** One compelling aspect of values-based investing is that it puts you, and your investors, on the ground floor of innovation. The problem-solvers in this industry — whether they are generating new investment products, new measurement techniques, or new ideas for creating impact — are critically important stakeholders, and they are a big part of the reason that investors find the industry so compelling.

As an asset manager or advisor, whether you mean to or not, you play a role in deciding which innovations will gain wider acceptance and be heard by investors. Don't underplay this responsibility! Use your platform to elevate issues that are of importance to values investors and raise mainstream awareness of new ideas. If you're going to have an investment strategy related to, say, gender diversity, know the players and speak frequently about the issue.

## BEING AUTHENTIC – A PRIMER

You achieve authenticity by:

- Revealing what motivates you besides money
- Resonating with the needs and concerns of your audience
- Showing a genuine interest in the work you do
- Acknowledging what you don't know
- Asking for feedback — and listening to it
- Having a well-defined voice and using it consistently

You undermine authenticity when you:

- Try to prove how much you already know
- Focus exclusively on money
- Emphasize transaction over relationship

# CONCLUSION: IT'S STILL ABOUT TRUST

Broadly, the most effective way to prove yourself in values-based investing is to let investors, through the way you communicate, see you as a model for how to navigate a complex industry in the service of achieving a greater good.

To achieve this goal, you must be a trusted voice. In a previous paper about building trust in the investment industry through better communications, we advocated for a handful of practices. Here is that list again, slightly tweaked:

To create trust, your company's values-based investing messages must...

- Define company drivers that are at least as powerful as money.
- Discuss your strategies, services, and methods in the context of client outcomes. Talk less about what you do and more about how your investors can use you to reflect their own values.
- Talk openly about your experiences in learning about the evolving environment.
- Frame yourself not as someone who knows the answers, but as someone who understands the questions, and is actively tracking available answers.
- Explain what you use fees for and why you are worth it.
- Help clients anticipate risks and opportunities.
- Don't try to be all things to all people. Define your values, live those values, and then authenticity naturally follows. If a client expresses a concern about an investment in a portfolio, have an answer for why that investment is included.

PurcellCom will be also be taking more steps to be a part of the solution. In 2020, we plan to:

- engage with industry leaders to elevate conversations about terminology
- perform a cross-industry content review to compare reporting standards and educational materials that focus on context
- collect samples of effective communications to feature in our Sample Library

*Keep an eye out for our updates and content in 2020, and raise your hand if you've got insights to share. We're excited about hearing your perspectives.*

# ACKNOWLEDGMENTS

**Rob Caverly**, CFP, Partner, *Bond & Devick*

**Paula Delaurentis**, CEO, *The SRI Conference and Community, Folio Financial*

**RJ Devick**, CFP, Partner, *Bond & Devick*

**Julia Enyart**, Impact Research Analyst, *Glenmede Investment Management*

**James Frazier**, CFP, Advisor, *Natural Investments*

**Laura Graham**, Chief Marketing Officer, *Uncommon Giving*

**Cherith Harrison**, Marketing Manager, *Folio Financial*

**Farzana Hoque**, Research and Communications Consultant, *US SIF*

**Vivienne Hsu**, Founder, *LENDonate*

**Douglas Lynam**, Director, *LongView Asset Management*

**Jeso O'Neill**, Chief Marketing Officer, *Vanderbilt Financial Group*