Maintain and Grow Your Book of Business with Sustainable Investing

By William Burckart and Jessica Ziegler
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Sustainable investment is growing rapidly in the United States and worldwide. Sustainably invested assets increased by 38 percent in the United States between 2016 and 2018 to a total of $12 trillion and grew 36 percent worldwide to $30 trillion during that same period, according to the most recent global review.¹ This means that today, more than one quarter of assets under management worldwide are invested in sustainable strategies.

More sustainable products hit the market each year, and investors of all kinds increasingly are integrating sustainable investing into their financial plans and investment portfolios. Specialist, “boutique” impact investment firms and medium-sized asset owners and managers are providing sustainable investment solutions to clients (think Sonen Capital, Boston Common Asset Management, and Pax World).

Some of the world’s largest financial institutions also help clients to pursue their sustainable investment goals. Bank of America Global Wealth and Investment Management and Morgan Stanley, for example, each offer third-party mutual funds, exchange-traded funds (ETFs), and separately managed accounts (SMAs) as well as proxy voting services and customized solutions. And most of the major index providers—including MSCI, Standard & Poor’s/Dow Jones, FTSE/Russell, and Thomson Reuters—provide extensive families of sustainability indexes. By 2019, for example, MSCI offered more than 600 Global Sustainability Indexes.

Despite its rapid growth and the increasing asset manager and owner embrace of sustainable investment, few financial advisors are capitalizing on this market potential and integrating sustainable investment into their practices. Many believe pervasive myths about the practice including, for example, that sustainable investment is a fad and it hurts financial performance. Others do not know what, exactly, sustainable investment is. How is it different from responsible investment? Impact investment? Even those who understand and buy into the practice may not know how to adopt it. When should I discuss sustainable investment with clients? What exactly should I say? How do I translate the discussion into action?

“Fundamentals of Sustainable Investing: A Guide for Financial Advisors,” our new guide with The Investment Integration Project published in collaboration with the Money Management Institute, directly confronts the barriers to entry into sustainable investment for financial advisors (Burckart and Ziegler, 2019). It provides practical guidance to the growing number of independent and affiliated financial advisors who find themselves faced with increasing demand from clients for sustainable investing.

Fact #1: Retail investors overall—not just millennials—increasingly are interested in sustainable investment. As many as 90 percent of millennial investors are interested in sustainable investment, but many women, men, and baby boomers also want to adopt the practice. In fact, three-fourths of all investors believe that environmental, social, and governance (ESG) factors impact the risk profile of their investments, and men increasingly are considering how they can use sustainable investment to replace charitable giving.

Fact #2: Sustainable investment can help advisors retain and attract clients. According to experts interviewed during development of the guide, incorporating sustainable investment into advisory offerings can help financial advisors to attract new clients, retain existing clients, competitively position themselves relative to their peers, and provide clients with a more satisfying investment experience.

“We were nudged into [sustainable investing]…”

NAVIGATING THE MYTHS ABOUT SUSTAINABLE INVESTING AND GETTING TO THE FACTS

The guide dispels common myths about sustainable investment that often prevent financial advisors from integrating it into their practices. It outlines the facts about sustainable investing in order to make it accessible for advisors and their clients (see figure 1).

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Nav a g i n g t h e m y t h s a b o u t s u s t a i n a b l e i n v e s t i n g a n d g e t t i n g t o t h e f a c t s

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**DEBUNKING THE MYTHS ABOUT SUSTAINABLE INVESTMENT**

**MYTHS** | **REALITIES**
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Sustainable investment is a fad; most investors are not interested. | Sustainable investment is growing, and it’s good for business.
Sustainable investment hurts financial performance. | Sustainable investment can enhance financial performance.
The environment and society do not affect investors. | Environmental and social phenomena affect investors and vice versa.

*Source: Burckart and Ziegler (2019)*

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**Fact #3:** Evidence increasingly suggests that certain sustainable investment approaches can enhance financial performance. Recent studies have found that: (1) sustainable companies can be better at managing risk and have less systemic volatility than their conventional peers, making them better overall investments; (2) sustainable investments—large and small—that are focused in private equity, private debt, and real assets can achieve market-rate returns; and (3) sustainable investment indexes can perform as well or better than their conventional counterparts.

**LOST IN TRANSLATION: SO MANY NAMES FOR THE SAME THING**

Falsehoods about sustainable investment are not the only thing stopping financial advisors from integrating it into their practices. Many advisors do not understand what, exactly, sustainable investing is. They have heard any number of terms used to describe sustainable investment, including but not limited to: ESG integration, socially responsible investing, impact investing, ethical investing, mission-related investing, values alignment, best-in-class investing, and triple-bottom-line investing. Sustainable investing experts, let alone novices, can get confused by these terms and their associated practices, and the prospect of learning the intricacies of each specific strategy can be daunting.

The guide untangles the complicated vocabulary and clarifies the key concepts that get buried under all the terminology. Of course, each term noted above refers to specific financial industry stakeholders, types of clients, investment strategies, or subsectors of activity. But the most important thing for financial advisors to understand is that these terms all fundamentally describe the same thing: They describe strategies that consider ESG factors in pursuit of financial sustainability and environmental or social sustainability.

It is less important for financial advisors to know the names of specific types of sustainable investing strategies than it is for them to understand that investors express their sustainability preferences in three basic ways: avoid, emphasize, and engage. That is, investors can avoid investments with poor ESG performance, emphasize investments that have positive ESG characteristics or solve environmental or social challenges, and engage with funds and companies to encourage ESG improvements and ESG risk mitigation.

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**READY, SET, GO: RECOMMENDATIONS FOR ACTION**

For those financial advisors who are convinced of the merits of sustainable investment and its staying power, the guide provides practical, specific recommendations for how to talk about it with clients.

**Step #1:** The first step in discussing sustainable investment with clients is not discussing it with them at all.

Rather, it is preparing for the conversation so that advisors can explain the available sustainable investment options, make appropriate recommendations, and answer questions (see figure 2). In other words, financial advisors should not start a conversation with a client about sustainable investment before they learn whether their product platforms directly offer sustainability-focused strategies or can facilitate access to them, and whether they can provide customized sustainable investment options to certain clients.

Advisors need to know how home offices and other affiliated platforms select products and construct portfolios, as well as to be able to describe one or two products to clients by way of example.

**Step #2:** Assess client sustainability goals as part of regular discovery processes. Life events, liquidity events, or other related points of change (e.g., marriage, death, divorce, strategic planning periods) are among the best opportunities to discuss sustainable investment...
with clients. These are times when clients typically reevaluate financial goals and make any number of adjustments to their financial plans and investment approaches, so they provide a natural segue into discussions about goals and strategies. Advisors also might use client events (e.g., cocktail or holiday parties) to discuss sustainable investment, as they would do for other major industry trends. Regardless, financial advisors can conduct discovery conversations with the support of an assessment checklist or tool, as they would for a discovery conversation that does not include sustainable investment. This might include bespoke protocols that can target client interest in issues or approaches available through a product platform. The guide includes an example of one such tool that includes prompts for starting the discussion, assessing clients’ goals, and determining whether and how clients want to reflect identified goals in their investments.

Step #3: Recommend an appropriate sustainable investment strategy. The process for developing and recommending a sustainable investment plan is the same as the process for vetting conventional plans and approaches: Understand what the client is looking for, and then solve for it. That is, advisors should consider the client’s performance expectations, risk appetite, and other important contextual factors (e.g., insurance issues, tax considerations, capital gains and losses, estate plans) alongside the client’s sustainability goals. These contextual factors should be formalized in an investment policy statement, which should include reference to the client’s agreed-upon sustainability parameters and their implications, if any, for financial performance.

Individual investors can contribute to positive change, but even the most influential cannot singlehandedly save the world. Financial advisors should be realistic and direct with clients about their ability to create big change with their sustainable investments. As one financial advisor told us: “I want them to get excited and I want them to sign up and take the next step. [They might say], ‘I want to end poverty with my portfolio!’ Ok, that’s not going to happen, but maybe you want to start [with a small investment] with a focus on housing and social enterprise . . .” Financial advisors also should be transparent about the availability of products that align with a client’s sustainability goals and the speed with which a plan or portfolio can be adjusted to reflect these goals. Especially eager clients might want to quickly and dramatically transition an entire portfolio to sustainable investment strategies, but tax and other implications might mean that a slower transition makes more sense.

Step #4: Finally, financial advisors need to have a sophisticated enough understanding of sustainability data, analysis, and reports to communicate relevant information to clients. Asset managers are largely responsible for collecting and analyzing sustainability data from corporations, but financial advisors need to be able to interpret sustainable investment reports for clients so that they can assess and manage a strategy’s alignment with and progress toward achieving sustainability goals. We provide three examples of hypothetical sustainability reports in the guide, with accompanying instructive commentary for advisors, one for each of the core sustainability analysis, for level sustainability analysis, for .
TELLING AND SHOWING: PUTTING THE RECOMMENDATIONS TO USE IN THE REAL WORLD

Of course, it is one thing to tell financial advisors how they should discuss sustainable investing with clients and something entirely different to show them how to do so in practice.

The guide includes a series of hypothetical scenarios that describe sample interactions with clients about sustainable investment. In one scenario, a high-net-worth elderly couple wants to ensure that their wealth helps to secure their family’s financial future and “to make the world a better place.” This scenario walks advisors through preparation, discovery, recommendations, and management, and it describes a sustainable investment strategy that leverages both public and private investments and accounts for the couple’s estate and retirement goals, investment horizon, and risk appetite.

The products and strategies that a financial advisor can offer to a client depend, in large part, on the type and size of the client. So, the depth and breadth of sustainable investment solutions available to an elementary school teacher are different from those available to a $50-million family foundation, and these two hypothetical scenarios also are outlined in the guide.

Many investors are sending a clear signal: They want to invest sustainably and they expect their financial advisors to help them to do so. Our new guide helps financial advisors to meet this client demand and embrace sustainable investing in their advisory practices. Doing so can help financial advisors develop deeper client relationships as they retain existing clients and grow their books of business in the process.

Jessica Ziegler is the director of research of TIIP. TIIP provides thought leadership, research, and consulting services that support investors’ pursuit of system-level investing, an advanced sustainable investing approach that focuses on managing systemic risks and investing in solutions to systemic problems. Learn more at https://www.tiiproject.com/

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