How socially responsible investing is moving beyond the wealthy

- Despite surveys that indicate millennials are most interested in socially responsible investing, the appeal of this type of product spans millennials, Gen X and baby boomers.
- Fintech companies are working to expand the field of available investments for customers of more modest means.

Suman Bhattacharyya | JUNE 20, 2017

To Scott Johnson, a biologist based in Amherst, Massachusetts, socially responsible investing is part of the way he lives his life. He said his motivations for doing so are the same as those that underlie his decisions to buy organic food at the farmers market and participate in a farm share.

“It’s one thing to simply buy Organic Valley products at Whole Foods, and it’s another to actually invest in the company,” said Johnson, 58, who with his wife invests in companies including Organic Valley as part of a larger portfolio that promotes social and environmental good. “For us, we see that as a seamless transition — we don’t see us getting a return on our retirement as separate from the way we live our lives.”

Among investors, interest in environmental, social and corporate governance areas is growing. According to the Forum for Sustainable and Responsible Investment, total

U.S.-domiciled assets under management focused on these areas were valued at $8.72 trillion at the start of 2016, up 33 percent since 2014. And despite recent research from Morgan Stanley that suggests millennials are the generation most open to sustainable investing, according to a financial adviser who specializes in socially responsible investments, it's older clients they're appealing mostly to. Experts say income level, rather than generational affinity, is what determines whether someone will pursue sustainable investments.

"There's a lot of industry press about the preferences of millennials because they're an up-and-coming demographic, but due to the nature of our business model, we're targeting people who have accumulated some wealth, and they tend to be in their fifties," said Andrew Bellak, CEO of Stakeholders Capital, the financial advisory firm that Johnson and his wife use.

The lack of a one-size-fits-all definition

Socially responsible investments are often called ESG investments — the acronym referring to environmental, social and governance factors. ESG covers a range of issues, a recent BlackRock paper noted, including carbon emissions and other environmental practices, labor and human rights policies and governance structures with a company. But no single definition can account for the range of interpretations.

"It's subjective," said Bellak. "Broadly speaking, it means you are considering things other than financial criteria and making an effort to do better than what's legislated. When you look at the environmental footprint, it could mean treatment of employees and all stakeholders, not just shareholders. We exclude a number of areas like gambling, weapons and extraction, like oil, gas or mining."

Another type of socially responsible investing is impact investing, which blends measurable ESG criteria with financial performance. One firm that solely does impact investing is Swell, an investment platform that just launched as a subsidiary of Pacific Life.

A principle-driven mission, but a bias toward wealthier investors

For one baby boomer, in addition to a financial return on investment, a legacy of contributions to the planet is important.

“I spent time thinking about how I wanted to invest my retirement money and decided that it needed to reflect what I valued as an individual and align with my moral compass of who I want to be in the world,” said Elizabeth Ackerman, 53, Johnson’s wife. “I also wanted for my children to see me again walk my talk with this particular choice.”

Still, Ackerman and Johnson hardly count as your average investors, given that Bellak’s firm requires its clients have at least $500,000 in assets.

Passionate millennial investors

Millennials with money are getting into the game, hoping their investments will bring positive changes to the world.

“What we’re seeing now is somebody who made a bit of money at a hedge fund spin off on their own with an idealistic viewpoint,” said Sean Trager, svp at Wedbush Securities, a brokerage firm that works with hedge fund managers. “They are the freedom fighters; they’re using the world to effect change.” Trager works on socially responsible investments at Wedbush, including investments in clean technology.

Trager said it’s often wealthier investors that get involved with socially responsible investing because they can afford to ride out investments that can have erratic returns.

Among those getting into socially responsible investments are hedge fund managers like Sean Stiefel, 29, a portfolio manager at Navy Capital. Stiefel, who used to work at larger funds like Millennium Partners and Northwoods Capital, started Navy Capital three years ago to do more ESG investing.

“With the larger funds, you’re forced to go with a select group of stocks, which makes it harder to find smaller, more nuanced stories,” said Stiefel.

Stiefel’s forays into ESG investing include marijuana investments, particularly research into medical treatments.

“We came across an entire industry that has mind-boggling growth, with the ability to disrupt and make the world a better place,” he said. “With all the problems with opioids, there could be medical treatments, and that will improve the economic situation, too. You have a tremendous opportunity to improve people’s lives via marijuana.”

When cynics say Wall Street actors just want to make money, Stiefel replies that it's the role of investors to provide the capital for positive change.

"These companies need capital to further their drug trials, and these products are actually going to help people, and without capital, these products may never make it to the shelf," he said. "I think that the cannabis space in particular is going to change the world for the better."

Ethical quandaries

Despite the appeal of ethical investments, some financial advisers say clients turn away if they can't be assured of a good return, according to John Burke, a financial adviser at Burke Financial Strategies, which works with clients with at least $1 million of assets under management.

"Most people haven't given [socially responsible investing] much thought," said Burke. "We try to get them to define it, and they realize that it's not so easy. A lot of them give up on the thought of it."

There's also no clear agreement on what's socially responsible. Emmanuel Lemelson, a portfolio manager at Lemelson Capital, is an ordained Greek Orthodox priest who employs what he considers a Christian philosophy of investment. Lemelson argues that the extractive industries still benefit the world, and he sees no conflict in investing in this area.

"The world needs energy, and energy is what's going to help a lot of people living in poverty," said Lemelson. "They're not the best option, but it's going to take time for society to change that. The problem is not hydrocarbons but emissions."

The move to democratize socially responsible investing

Newer platforms are lowering the barrier for entry to make it easier for people to invest in socially responsible causes. To use Swell, for example, investors only need to invest $500 or more. Aspiration, an investment platform launched two years ago, requires users to invest a minimum of $100 to join its socially responsible fund, the Redwood Fund.

"Historically, almost all investing has come a relatively small number of very wealthy individuals and large institutions," said Andrei Cherny, CEO of Aspiration.

Lisa Fernandez, 30, invested $500 into the Redwood Fund last October. Aspiration offered her a route to ethical investing even though she didn't have access to a large amount of capital.

"This is the first socially responsible fund I've invested in, and to be honest, I didn't think funds like this one existed with minimum investment amounts that I could afford," she said.

The move toward sustainable investing is also gaining ground among other app-based platforms, including Acorns, which rounds up purchases so the change can be put toward investments. The company launched a sustainable investment fund for its Australian customers last week, a move it says challenges the thinking that do-good investments don't yield returns.

"This is an old adage and no longer true," said Acorns Australia CEO George Lucas. "The universe of companies that are becoming more socially responsible is increasing, and therefore, so is the universe of stocks and assets for constructing well-diversified portfolios which are still in line with investors' values."