FROM SRI TO ESG:
The Origins of Socially Responsible and Sustainable Investing
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Socially responsible investing. SRI. It is a well-worn term that grew in prominence during the 1980’s and 1990’s, but its roots trace back two millennia. In fact, SRI reflects a set of values that migrated from religious doctrine at the edge of the historical record to a modern landscape challenged by social justice issues, climate change and concerns about corporate governance. At its inception in North America, civil rights-era thinkers, faith-based organizations and women were SRI’s most strident evangelists; specifically, women investors, women entrepreneurs and orders of Catholic Sisters. Today its proponents range from millennial analysts at Wall Street firms, to financial engineers, pension trustees, heads of family offices, sovereign wealth funds and retail investors. From a virtual novelty run out of a few dedicated shops, modern SRI is now a global phenomenon affecting the debate on fossil fuels, fundamental stock research, required disclosures for stock exchanges, credit ratings, global accounting standards and multinational cooperation with stakeholders.

SRI has always been rich in nomenclature, and the modern process is no exception. “Sin stocks”, “best in class”, “community investing”, “values-based investing” and “green investing” are now joined in the lexicon by “environmental, social and governance (ESG)”, “impact”, “gender lens”, “fossil fuel free” and a host of other terms. Today, SRI can aptly be described as sustainable, responsible and impact investing, and it is a legitimate influence on the capital markets and financial services.

In the traditional more liquid markets (stocks and bonds), modern SRI falls into two camps: values-based investing along the lines of traditional socially responsible investing; and more forward looking ESG analysis, which strives to assess the materiality of non-traditional data to determine which companies are best prepared to compete in a world with dwindling natural resources, higher regulatory burdens, a growing human population and climate change. According to the 2016 trends report by the United States Social Investment Forum (USSIF), sustainable, responsible and impact investing now accounts for $8.72 trillion invested in North America, up 33% from 2014. Much of this growth is driven by large asset owners who now consider ESG criteria across $8.10 trillion in assets, up 69% from $4.8 trillion in 2014.1 As the USSIF data shows, it is the growth in ESG investing that makes modern SRI more than just a trickle in the market. ESG has done what traditional socially responsible investing could not: ESG has breached the wall that isolated mainstream investing from socially responsible investing.

The modern SRI process stands on three pillars: socially responsible investing, ESG investing, and corporate engagement and impact investing.

1. Values-based avoidance screens – akin to traditional North American socially responsible investing;
2. Proactive sustainability-focused analytics – “ESG investing”; and
3. Corporate engagement and impact investing.

In this paper we will focus on the origins and evolution of the first two pillars, the traditional North American model for responsible investing and ESG – which first took hold in Europe.

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1 http://www.ussif.org/blog_home.asp?Display=75
Socially Responsible Investing

“The arc of the moral universe is long, but it bends towards justice.”
– THE REV. MARTIN LUTHER KING

“There’s something happening here. What it is ain’t exactly clear.”
– BUFFALO SPRINGFIELD

Do no harm. That is the central concept of traditional faith-based investing and to some degree the central concept of traditional socially responsible investing: avoiding products or industries that conflict with a set of moral values. These prescriptive screens, however, don’t quite capture the aspirational spirit behind the birth of socially responsible investing in America. Traditional SRI was heavily influenced by the transformative 1960s and 1970s, which saw the rise of the anti-war movement and the maturity of movements on racial equality, women’s rights, consumer protection and the environment. These social and cultural influences are sometimes undersold in the narrative of traditional socially responsible investing. In fact, it was a fusion of the faith-based values with these distinct American progressive values that created the recipe for “socially” responsible investing in North America. By the early 1970’s this led to the creation of the first mutual funds reflecting faith-based values, civil rights-era sensibilities and environmental concerns.

Of course by 1970, using any “social” criteria in investing went against conventional wisdom, and traditional socially responsible investing had many more critics than investment vehicles. Famed University of Chicago Economist Milton Friedman offered the most famous soundbite of the era telling the New York Times Magazine in 1970 “the social responsibility of business is to increase profits.” Friedman’s comments dovetailed with the Nobel Prize winning work of fellow University of Chicago economist Harry Markowitz. It was Markowitz’s 1952 Journal of Finance paper, “Portfolio Selection,” that introduced “Modern Portfolio Theory” (MPT) to the world. MPT had as a basic tenet the notion that restricting an investment universe (for any reason) should be anathema in the world of investing. Critics came from outside the financial world as well. Kennedy Administration National Security Advisor and future Ford Foundation President, McGeorge Bundy, was succinct in expressing his thoughts on the subject when he said, “we don’t believe only the virtuous make money.”

Nevertheless, in the 1970s the socially responsible investing industry established a pattern that would become very familiar in the decades to come. Despite its “conservative” biblical influences, socially responsible investing proved nimble with respect to the transformative 1960s and 1970s, which saw the rise of the anti-war movement and the maturity of movements on racial equality, women’s rights, consumer protection and the environment.

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to changing cultural mores and “progressive” views in society. As society reacted to nuclear energy, sweatshops, Apartheid, GMOs, climate change, human trafficking, the gender wage gap, the LGBTQ movement and a host of other policy or cultural issues, socially responsible investors followed suit. It has been this way since John Wesley steered the Methodists away from the slave trade.

SRI investors push the industry. They are not pulled. Over time, their stances have seldom been judged harshly in the eyes of history. Whether on slavery, Apartheid, tobacco, private prisons, conflict minerals or coal, these early investors did not require quantitative validation before making their choices. The decision was a matter of principle and very much reflected the aspirational Zeitgeist of the 1960s and 1970s. In much the same way, Warren Buffett inspired investors with the simple mantra: don’t invest in a company you don’t understand. Socially responsible investors have been just as inspirational: don’t invest in a company that conflicts with your values. The birth of the industry coincided with a time when many Americans were challenging which values were most important.

There is usually a catalyst for innovation within the SRI market – Apartheid and climate change are the most recent examples. At the birth of the SRI industry in the 1970s, the most prominent catalyst was the Vietnam war.

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Orange is the New Green

By the end of the 1960s, the Vietnam war had grown more complicated for the general population and social-minded investors. The volume of dissent was increasing around the country, and the realization that portfolios may be profiting from the war effort forced the hand of many religious investors. By the 1970s, some in North America began searching for ways to avoid “war profiteering” in their portfolios. The low hanging fruit was Agent Orange – what became identified as a “controversial weapon” in the parlance of SRI.

Over a five-year period, Agent Orange was sprayed over 10% of South Vietnam in a technique called “herbicidal warfare” developed by the British in the 1950s. This combination of toxins was developed for the United States Department of Defense by Dow Chemical and Monsanto, and has been described as the “most toxic molecule designed by man.” Agent Orange was designed to defoliate forests and terrorize populations. In 1971, the Pax World Balanced Fund was launched in large part to provide an option for largely religious investors looking to avoid direct investments in the supply chains for Agent Orange on moral principles.

The launching of Pax also corresponded with the general awakening of the environmental movement in this country. It occurred less than ten years after Rachel Carson’s seminal book, The Silent Spring, gave birth to the modern environmental movement and the idea that toxics, pollution, water, air, plants, people and animals were all connected. She probably couldn’t have imagined how correct she was. In 2016, scientists found tiny crustaceans in some of the deepest, most remote crevices of the ocean – six miles below the surface – contaminated with PCBs and even flame retardant at levels 50 times heavier than crabs living in China’s most polluted waters. The era also saw protests over nuclear disarmament evolve into concerns over nuclear energy. Friends of the Earth was created in 1969 to carry that mantle. By April 22, 1970, Wisconsin Senator Gaylord Nelson and a Harvard educated organizer

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named Denis Hayes mobilized 20 million Americans for the first Earth Day celebration. That same year, the Environmental Protection Agency was created and the Clean Air Act was passed. A cascade of environmental and consumer protection legislation followed, including the Clean Water Act in 1972 followed by the Endangered Species act in 1973, both with bi-partisan support. North American socially responsible investing was born against this backdrop.

Pax soon had company, and the mission of the other new socially responsible funds reflected this groundswell of aspirational progressive values. The Dreyfus Third Century Fund was launched in 1972 with serious capital for the time ($25 million) and had some heavy hitters behind it (presidents of the League of Women Voters and Rockefeller Foundation, the executive director of the Urban League, a Nobel Prize winner, and president of Princeton University). The Fund’s prospectus stated it was looking for companies that “show evidence in the conduct of their business, relative to other companies in the same industry or industries, of contributing to the enhancement of quality of life in America.” Novel at the time, this type of analysis would essentially be called “Best in Class” in socially responsible investing by the 1990s.

Another entry to the fledgling SRI business was the First Spectrum Fund, which started in 1971. Its process also foreshadowed modern SRI techniques, promising no investment would be made before it analyzed companies’ performance in “the environment, civil rights and the protection of consumers.”

There was important work being done on specific issues as well – like workplace practices and companies’ roles in society. The early champion of this work was journalist Milton Moskowitz, a tenacious business-minded thinker who believed that treating employees well, being transparent and being a good corporate citizen was a pretty fair investment thesis for a long-term holding. Moskowitz wrote in the Sunday New York Times in February of 1973, “I do harbor the suspicion that a socially insensitive management will eventually make enough mistakes to play havoc with the bottom line.”

Moskowitz wrote a nationally syndicated column three times a week from 1968-1986 and published seven books. In 1968, Moskowitz also launched Business & Society, the first business newsletter focusing on the role companies played in the lives of their employees, in their communities and society at large. “Its constant drumbeat,” wrote Moskowitz, “was to encourage corporations to become engaged in tackling social problems.” In 1982, Moskowitz served as senior editor for Business and Society Review, a serious academic journal covering the same subject matter. It survives today as an arm of the Center for Business Ethics at Bentley University in Waltham, MA.

The idea of corporate social responsibility (CSR), much less a dedication to reporting on it, was nearly nonexistent in 1968 when Moskowitz began his career. To be sure, focusing on CSR was not a target rich environment for a journalist in 1968. As Moskowitz pointed out at the time, Major League Baseball was integrated in 1947, but it took twenty years before there was a single black board member at a Fortune 500 Company. There were few sources of CSR information readily at hand. In many ways, Moskowitz built a strawman for CSR on which decades of researchers and journalist could build. There is now a cottage industry on CSR that spans consulting, journalism and publishing. The 500 largest companies in the world now spend over $15 billion per year on CSR efforts.

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7 New York Times Sunday, February 11th 1973, Why ‘Good Guy’ Funds have Flopped, Milton Moskowitz
8 https://www.ft.com/content/95239a6e-4fe0-11e4-a0a4-00144feab7de
Although it would be decades before the academic studies caught up with the growth of the socially responsible investing industry, Moskowitz published a list of “responsible” stocks in *Business & Society* in order to track them against broad market indices and the first socially responsible mutual funds in 1972. His original list included the following “responsible” companies:

- Chase Manhattan
- Dayton Hudson
- First Pennsylvania
- Jewel Companies
- Johnson Products
- Levi Strauss
- M-REIT
- New York Times
- Rouse Company
- Standard Oil (Indiana)
- Syntex
- Weyerhauser
- Whirlpool
- Xerox

In 1973, Moskowitz added new names:

- CNA Financial
- Cummins Engine
- Lowe’s
- Quaker Oats
- McGraw-Hill
- M-REIT

Moskowitz tracked these “responsible” companies against the broad stock market and went as far as compiling an “irresponsible” list as a further data point to explore the investment thesis of picking the “good guys”. These early efforts to evaluate performance started the clock on the academic research dealing with SRI performance. Moskowitz’s insights shed additional light on the civil rights-era sensibilities that influenced early SRI-era sensibilities that influenced early SRI offerings.

For example, Moskowitz included Johnson Products because it was the only black-owned business listed on the NYSE exchange. And M-REIT, which was a real estate investment trust looking to acquire residential properties and racially integrate them. M-REIT sought to make a statement that might still resonate today with millennial investors seeking to avoid for-profit prisons and concerns about growing wealth disparities in this country. M-REIT founder Morris Milgram said at the time, “Life is too short to do anything but build the kind of world one believes in.”

A prominent name on the list was Levi Strauss & Co., a company at the forefront of the early CSR movement with a suite of business practices that would set the early standard. Levi Strauss was a featured company in the first edition of the best-selling *100 Best Companies to Work for in America*, published by Addison Wesley in 1984 by Moskowitz, Robert Levering and Michael Katz. The “100 Best” list eventually became an anticipated annual release in *Fortune Magazine* beginning in 1998, and its methodology has spawned numerous other endeavors to rate companies.

The “100 Best” methodology was also applied in real time as part of the investment thesis for the Parnassus Management’s Endeavor Fund (formerly called the Workplace Fund). Launched in 2005, the Endeavor Fund has crested $2 billion in assets under management by 2017 and has received rating service Morningstar’s highest ratings for its category.

In 1996, the Moskowitz Prize was established to recognize peer-tested academic research in the area of socially responsible investing. Given annually, the Prize is administered by the Haas School of Business, University of California Berkeley Center for Responsible Business – one of the hundreds of graduate programs that now focus on CSR and sustainability issues. In fact, today over 88% of students looking for a business school MBA believe learning about social and environmental business impact is critical.

Many of the companies on Moskowitz’s original list (or their successors) still maintain some of the CSR attributes they espoused at the time. Johnson Products was sold to consumer giant Procter and Gamble in 2004 but was then spun out to a group of African American investors in 2009 to reestablish its position as a black-owned business. And in Ursala Burns, Xerox today has one of only five African American CEOs among the Fortune 500 companies. Burns was also the first black woman CEO of a Fortune 500 company and the first woman to succeed another wom-

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as CEO of a Fortune 500 company. In January 2017, Levi Strauss was a lead signatory of a letter to the new Trump administration to support the low carbon economy.

North American SRI in the 1980s

“The whole world is a bottle, and life is but a dram. When the bottle gets empty, Lord, it sure ain’t worth a damn.”
- MOONSHINER, TRADITIONAL

“Just thirty miles from Detroit stands a giant power station. It ticks each night as the city sleeps, seconds from annihilation.”
- WE ALMOST LOST DETROIT, GIL SCOTT HERON

By the 1980s, the socially responsible investment value proposition in North America had been standardized to some extent: build a portfolio that behaved like the broad market without investing in alcohol, tobacco, weapons, gambling, pornography and nuclear energy. These are the classic “avoidance” screens and the backbone of the traditional North America socially responsible investment process.

Beyond the avoidance screens, SRI in North America employed a practice of filling industry sectors with companies regarded as “best in class”. The idea was to avoid any company with egregious patterns of behavior around workplace, governance, environment, social justice and/or other issues that could be quantified or identified. In 1990, the Domini 400 Social Index was launched as the first capitalization-weighted index mutual fund based on this traditional framework – avoidance screens and “best in class”. The Domini 400’s ability to track the S&P 500 index over long periods of time with this methodology created a track record that was critical to the growth of the SRI industry.

At the highest level of the SRI practice in North America, firms coupled the use of values-based avoidance screens with a commitment to shareholder activism or “engagement” – the powerful notion of leveraging ownership in a company to improve its behavior over the long term. Corporate engagement and shareholder activism have been a critical part of traditional socially responsible investing since the start. Leveraging the proxy vote and access to management has been a forceful agent of change that continues today.

The technique of using avoidance screens – the cornerstone of traditional socially responsible investing – is integral to modern SRI/ESG investing as well. The Fossil Fuel Free...
movement is perhaps the best example of this. Even though the overarching focus is climate change and shifting capital from traditional fossil fuels to renewables (either as a hedge against a higher price of carbon or to pursue the divest/invest approach), the investment process centers on the exclusion of an industry. Gender Lens investing would be another example of an investment process utilizing avoidance screens – where industries harmful to women and girls might be excluded while companies with corporate practices that offer pay equity or gender diversification on their boards and in corporate suites would be favored. In fact, the majority of the over 500 mutual funds that now fall into the modern SRI and ESG space utilize some avoidance screens, with tobacco and investment in Sudan being the most common. With ESG data now readily available (details to follow), the marriage between ESG and traditional socially responsible investing with its values-based screens appears to be a lasting one.

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This does not mean that values-based or more traditional SRI with its faith-based or civil rights-era sensibilities is moribund or no longer relevant; it is quite the contrary. Depending on the lens with which you view the world, it may be more relevant than ever. The instinct for some investors to fight against the excesses and exploitation inherent in the capital market system is not likely to fade soon. This has been a strong impulse of certain investors since the 1960’s civil rights era inspired the industry. It is very likely responsible investing will continue to be married to ESG, which represents the sustainable investing framework inherent in modern SRI.

Using the “Best in Class” approach, an SRI portfolio is diversified along the industry sectors in the broad market. After implementing the avoidance screens to remove certain products or industries from the portfolio – companies get evaluated against their peers not against an absolute standard on environmental, social or governance issues. This is particularly relevant in industries that have a heavier environmental or social footprint like energy. The idea is to avoid any company with egregious patterns of behavior around workplace, environmental or other social issues that could be quantified. Best in Class is coupled with the idea of shareholder activism or “engagement” – the powerful notion of using ownership in a company to change its pattern of behavior for the better over the long term.
By the mid-2000s in Europe, there were three main catalysts that created the demand for analysis on environmental, social and governance (ESG) issues by large investors. The first was a strong intellectual and legal debate on the relationship between fiduciary duty and issues of sustainability. The second was climate change. The third was a capitulation to the thesis that poor corporate governance was harmful to the markets.

**Fiduciary Duty**

The balance between sustainability issues and fiduciary duty was a focus of the United Nations Environmental Program (UNEP). By 1992, UNEP was working with the financial services sector to support “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” This idea was decades in the making. In fact, UNEP’s mission was an eerie echo of U.S. President Dwight Eisenhower’s words from his farewell speech in 1961, “As we peer into society’s future, we – you and I, and our government – must avoid the impulse to live only for today, plundering, for our own ease and convenience, the precious resources of tomorrow.”

In 2005, UNEP commissioned a landmark report by the London-based law firm Freshfields Bruckhaus Deringer to answer a specific question:

‘Is the integration of environmental, social and governance issues into investment policy (including asset allocation, portfolio construction and stock-picking) voluntarily permitted, legally required or hampered by law and regulation; primarily as regards public and private pension funds, secondarily as regards insurance company reserves and mutual funds?’

The report looked at the uniform laws on fiduciary duty in seven major world developed markets including the U.S., the U.K., Germany and France. With respect to the U.S., the report looked at the modern prudent investor rule that is the foundation of uniform federal laws like ERISA (the Employee Retirement Income Security Act of 1974, a federal law that sets minimum standards for most voluntarily established pension and health plans in private industry to provide protection for individuals in these plans) and its state level counterparts. The report concluded that not only was incorporating ESG consistent with fiduciary duty, but ignoring these long-term risks might in fact be a breach of fiduciary duty. Acceptance of this conclusion removed a major hurdle for the growth of ESG.

From the conclusion of the report:

‘Conventional investment analysis focuses on value, in the sense of financial performance. As we note above, the links between ESG factors and financial performance are increasingly being recognised. On that basis, integrating ESG considerations into an

‘... [We] must avoid the impulse to live only for today, plundering, for our own ease and convenience, the precious resources of tomorrow.” – U.S. President Dwight Eisenhower

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The origins of socially responsible and sustainable investing

investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions.

Climate Change

“You don’t need a weatherman to know which way the wind blows.”

– SUBTERRANEAN HOMESICK BLUES, BOB DYLAN

As for the second catalyst – climate change – scrutiny had been building like steam in a kettle for some time as well. As early as the 1980s, climate scientists were concerned by what their models were showing. The Inter-Governmental Panel on Climate Change (IPCC) was jointly established in 1988 by the World Meteorological Organization (WMO) and UNEP in response to the growing concerns over the burning of fossil fuels and the rise in global temperatures.

That same year, the U.S. Congress held its first hearing on the subject where NASA scientist James Hansen posited that he was “99% certain” that greenhouse gases were causing global warming. This was just about a decade before the first international push for cooperation on global warming – the Kyoto Protocol in 1997 – and nearly three decades before the 2015 United Nations Climate Change Conference in Paris, COP 21. It was also one year before the Exxon Valdez oil spill in Prudhoe Bay Alaska in March of 1989. The world was at a crossroads in its relationship with fossil fuels.

The massive Exxon Valdez oil spill galvanized both the environmental community and the social investing community. In the face of the spill (and through sheer will), an SRI evangelist named Joan Bavaria worked with environmental leaders to bring together an unprecedented coalition of institutional investors, environmental organizations and socially responsible investors to challenge business as usual with respect to large companies’ impact on the environment.

Bavaria helped form The Coalition for Environmentally Responsible Economies (C.E.R.E.S.) which gave birth to the Valdez Principles – a voluntary set of ten principles for large companies to sign. Eventually, the acronym was dropped and the coalition and principles both went by the name “Ceres”. From the start, the Ceres coalition included environmental Non-Governmental Organizations (NGOs) like the National Wildlife Foundation, religious investors including the Interfaith Center for Corporate Responsibility (ICCR), large asset

FIDUICARY DUTY

Over the past two decades the laws surrounding fiduciary duty have evolved to accept the broad use of ESG metrics in investing. In 2005, the international law firm Freshfields Bruckhaus Deringer studied fiduciary law in nine countries including the United States and concluded the links between ESG criteria and investments were becoming more widely acknowledged. The firm concluded that “integrating ESG considerations into an investment analysis...is clearly permissible.” In 2015, the Department of Labor specifically ruled that pensions and plan sponsors can invest in socially responsible or sustainable “economically targeted investments (ETI)” based in part on their collateral benefits “so long as the investment is appropriate for the plan and economically and financially equivalent with respect to the plan’s objectives, return, risk and other financial attributes as competing investment choices.”

Today, the Global Reporting Initiative (GRI), Carbon Disclosure Project (CDP), Sustainability Accounting Standards Board (SASB) and even the Security and Exchange Commission (SEC) represent varied efforts to enhance and further the movement to require better disclosure from large companies.

owners such as the City of New York Pension Fund and traditional SRI firms.

The oil industry provided a clear bridge between traditional socially responsible investing in North America and the burgeoning ESG movement in Europe. The Ceres coalition ushered in an era of increased transparency on environmental issues of publicly-traded corporations – companies which at first bristled at the burden of environmental disclosure. As one-time Ceres CEO Bob Massie put it: “In 1996 the whole idea of having an environmental ethic, or measuring your performance above and beyond your legal requirements was considered completely insane. Sustainability was considered to be a shockingly difficult thing that no company would ever voluntarily take on as a goal.”

Ceres laid the groundwork for the Global Reporting Initiative (GRI) under UNEP which set the stage for future disclosure frameworks like those being developed by the Sustainable Accounting Standards Board (SASB). This heightened focus on environmental transparency at large companies was critical to the success of ESG and to understanding the impact of climate change on the markets. Consultant KPMG reports that today 93% of the world’s largest 250 companies report on sustainability issues. What can be measured, can improve.

Ceres also specifically helped raise climate change awareness. In August of 2005, Ceres issued the first report on the impact of climate on the insurance industry. In a terrible coincidence, the report was released just as Hurricane Katrina slammed into the U.S. Gulf Coast. The report jibed with the IPCC assessment that the world had two choices: environmental catastrophe on the one hand or addressing global warming en masse on the other.

By 2005, when UNEP released the Freshfields’ report, large institutional investors like the $300 billion California Public Employee Retirement Pension Fund (CalPERS) were starting to pay attention to the IPCC conclusions and to external inputs from stakeholder organizations like Ceres. These so-called “universal owners” – large investors like CalPERS, other pension funds, index funds and insurance companies that own the entire market – were heavily exposed to longer-term risks like climate change and the higher input costs for affected companies. Since the “universal owners” returns were heavily correlated to the overall returns of the broad capital markets, they started to take seriously their exposure to these previously under-explored risks – like climate but also water, access to healthcare and other pressing issues. In turn, they started to drive the cottage industry in ESG research so they could begin to assess the materiality of different factors.

To institutional investors, ESG analytics promised to help identify long-term risk factors and/or identify investment opportunities based on these risks. ESG focused on risks that were likely not factored into traditional Wall Street analysis. Tangentially, the ESG scoring framework was also more palatable to mainstream investing because it was compatible with quantitative-driven investing. That compatibility helped fuel its growth.

By 2011, regulators in California, Washington and New York began to require disclosures on climate risk by insurers operating in their states. The movement started by Ceres and GRI was gaining steam. More required disclosure helped improve ESG data. This push for transparency on environmental issues was critical in escalating the idea that climate change affected the investment markets. According to Anne Simpson, senior portfolio manager and director of corporate governance at CalPERS, “making sure that capital markets work is absolutely...”

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It stands to reason that North American socially responsible investing and ESG bore a family resemblance from the start. But from the moment the Exxon Valdez struck a reef in Prince William Sound Alaska, both investment disciplines were on a collision course with the fossil fuel industry. To the traditional SRI industry, human rights issues were on par with environmental concerns in the fossil fuel industry, particularly the conduct of western companies operating in environmentally sensitive and unstable countries without democratic governments. With ESG the scales tipped toward climate change and capturing the data required to make economic arguments to end dependence on fossil fuels. It was a vexing challenge for both traditional and modern SRI to reconcile.

“Big Oil” always danced around human rights issues in Nigeria, Central America and other regions with operations plagued by human rights issues. Standard operating procedure was to deflect responsibility to local partners – albeit local partners under their strong influence. With climate change there was not an established playbook. In general, the “Big Oil” industry utilized a two-pronged strategy to combat the ESG thesis on climate risk. First, they quietly braced for policy changes triggered by concerns over climate change and the burning of fossil fuels (the more forward thinking actually started investing in renewables and alternatives at the same time). Second, they aggressively backed efforts to slow changes in the status quo on the regulatory front and in the court of public opinion. The main focus of this work was the Global Climate Coalition (GCC), which was comprised and funded by fossil fuel companies to promote alternative research to arm the “climate skeptics” and to lobby strongly against the U.S. ratification of the Kyoto Protocols and subsequent multi-lateral global efforts to limit the burning of carbon like COP 21.

Although support for the GCC has crumbled, conduct of large oil companies with respect to climate change is still being scrutinized and judged in real time. One of the most symbolic acts in this public debate is the Rockefeller Family Fund’s campaign against Exxon Mobil (“Exxon”). The Rockefeller family’s source of wealth was Standard Oil – Exxon’s ancestral corporate parent. It has been a widely followed story alleging that Exxon refused to develop alternative and renewable energy and funded alternative climate science like the GCC even as they knew climate change was real and would have an impact on their future earnings.

While interest in the Rockefeller family’s campaign with Exxon may be more “pique oil” than “peak oil” to some, the tenets are central to the case of “materiality” in ESG research. Exxon is a case study. Exxon eschewed developing renewables, actively funding the GCC, and to the chagrin of the New York Attorney General and the SEC, did not “write-down” the financial value of its oil and gas reserves due to climate change issues like most of the industry. The open question is whether their actions conflicted with the interest of shareholders.

The SEC first offered guidance on how climate change fits into existing disclosure framework in 2010. At the time, Chairman Mary Schapiro said, “a company must disclose the significant risks that it faces, whether those risks are due to increased competition or severe weather.” – SEC Chairman Mary Schapiro

16 https://www.nybooks.com/articles/2016/12/08/the-rockefeller-family-fund-vs-exxon/
Of course, the SEC’s comments are a reflection of a long and sustained movement by responsible investors who maintain that environmental, social and governance issues are material to the long-term performance of a stock. By contrast, Wall Street has only recently turned its considerable intellect to this type of analysis. Today, there are efforts on multiple fronts to help bridge the gap between ESG analysis and Wall Street. In fact, SASB has been working with the SEC, investment and business communities to help standardize and quantify what environmental and social factors are material to financial performance in order to help usher in better reporting on these issues.

In any case, the SEC’s scrutiny speaks to the accepted “materiality” of ESG risks. In the case of carbon, the case was built from the IPCC assessments and furthered by issue-specific financial analysis like the Carbon Tracker Initiative (CTI) in London and the work of organizations like Ceres. CTI synthesized for investors the economic impact of a world aligned to prevent the burning of fossil fuels. By the 2010s, CTI had rallied around the concept of a global “carbon budget.” The premise was simple: if 350 parts per millions of greenhouse gases in the atmosphere was the tipping point for environmental-related crisis, the world would rally to prevent gases from reaching that level. CTI created a list of the 200 largest companies in the world as measured by their proven carbon reserves. This Carbon 200 became the focal point of a growing fossil fuel divestment movement around the world.

For ESG investors, the evidence and support for this thesis was mounting. Unlike the tenor of the debate when Ceres published its first report on climate and the insurance industry at the time of Hurricane Katrina, by the time Hurricane Sandy hit the Atlantic Coast in 2012, the insurance industry was largely on board with the idea that climate related risks were very real. In the June 13th, 2013 issue of Insurance Journal, the industry think tank Geneva Association stated it plainly, “...climate change threatens the insurability of catastrophe.”

The numbers back up this claim. The National Resources Defense Council reported that $139 billion was spent to address the effects of extreme weather in the United States in 2012. This was more than was spent on either education or transportation. Globally, the Oxford Smith School of Enterprise and the Environment concluded that eventually climate change related events could wipe out $6 trillion per year in agricultural assets.

Even Wall Street icons like Jeremy Grantham and Robert Litterman were embracing this new idea of market risk posed by climate. Grantham, the founder of Wall Street asset management giant GMO and a former Shell Oil economist, stated for the Guardian’s Environmental Blog, “Those extreme, dangerous, carbon-intensive and polluting resources run the very substantial risk of being stranded assets... I don’t think if you put billions into new tar sands (sic) projects you will see a decent return on it.”

Litterman, the former head of risk for Goldman Sachs and the co-creator along with Fisher Black of the Black-Litterman asset allocation model, remarked in the Canadian Investment Review, “What a risk manager really has to do is figure out whether risk is being priced accordingly... climate risk is not being priced right by society. It is a global problem; it requires a global solution.”

Litterman is a strong advocate of creating market mechanisms to reduce carbon.

Nevertheless, the widespread assessment of climate risk moved the investment world to look at environmental risks as material to outcomes for long term investors. This was a huge leap for Wall Street which was trained to see the world in three month increments. The SEC voting 3-2 to add global climate change as a material issue – like a plant closing – that companies may have to disclose to investors only underscores this. The evolving view of the materiality of climate change has been a huge driver in the credibility and demand for ESG.

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19 https://www.theguardian.com/environment/blog/2013/apr/16/jeremy-grantham-food-oil-capitalism

$6T Estimated impact of climate change related events on global agricultural assets.
Corporate Governance

Fool me once, shame on you. Fool me twice, shame on me.

– PROVERB

Joining climate change in the trifecta of catalysts that bolstered the case for ESG research were the epic corporate governance and ethical failings that defined the sub-prime mortgage crisis and the subsequent Great Recession. Although there is truth in the idea that good corporate governance should have been central to fundamental investing prior to the subprime crisis or the advent of ESG analytics, it is also true that bad ethical behavior is by definition hidden until it is too late. Unfortunately, changes in the complexity of the capital markets and the speed at which capital flows around the planet have raised the stakes for all investors when bad behavior hits the markets.

By the 2000s, gone were the days of a mortgage being held by the local bank that lent the money and therefore knew the client and understood the risk of repayment. By the 2000s, the capital markets were creating staggering, vast, opaque investment pools of mortgages that neither the credit agencies nor the regulators really understood. Sub-prime players like Countrywide were collaborating with intermediaries like Lehman Brothers and Bear Stearns to create complex mortgage-backed securities without the basic checks and balances you might expect from good stewards of capital. The result was a near death experience for many investors and an era of unprecedented government intervention just to keep the markets afloat. Once again, the “universal owners” took the biggest financial hits. This exacerbated pension fund shortfalls.

As has been the case with each roiled market since the Great Depression, the event came with soul searching and a deconstruction of each incident. With the sub-prime crisis, as was the case with previous market calamities caused by malfeasance (think: Enron and WorldCom), a lack of disclosure, transparency, checks and balances and good old fashion ethics in the financial sector contributed to the havoc and the ultimate cost to investors. In the Global Financial Stability report issued by the International Monetary Fund in April of 2008, the cost in just the real estate and credit markets was nearly $1 trillion.22 By the end of 2008, the Federal Reserve reported that household wealth in the United States had declined by ten times that much.23 “Universal owners” were reported to have lost $5.4 trillion as a result of the sub-prime crisis.24

The stock market crash of 1929, which led to the Great Depression in the 1930s, ushered in standardized financial reports. The sub-prime market crash in 2008-2009 and the subsequent Great Recession made it clear to the largest asset owners they needed a better framework to assess risks in the market, particularly around complex derivative instruments and the “shadow banking system.” Suddenly separation of board CEO and chair, board independence, oversight committees on sustainability issues, transparency, political giving and a host of other issues became “material” to the long-term performance of a stock. Investors needed a lens through which they could assess risks around climate change, corporate governance and behavior. Traditional Wall Street analysis did not provide this lens. ESG analysis had come of age.

Global Problem, Global Solution

As Litterman remarked, risks like climate and poor governance are now global and require a global solution. By the time of the Great Recession in 2008 and corresponding sub-prime crisis of 2008-2009, the global efforts that would complement the ESG framework were being established. In 2000, the UN

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PILLAR 3:
IMPACT INVESTING: DIRECT AND THROUGH CORPORATE ENGAGEMENT

Impact investing typically encompasses direct investments in debt or private equity that actually have the potential for attractive returns while creating a positive social or environmental outcome – think renewable energy or new technologies to use less water. For early practitioners in SRI, there were two main focuses for this type of direct investing. The first strategy was to use conservative fixed income investments that could promote affordable housing or job creation within the traditional community banking model. Most frequently, this meant certificates of deposit from community based banks. The second less common strategy was the use of direct promissory notes to organizations promoting social services. These early direct investments were typically accepted to be “below market” return vehicles. An above market or even market return was not a prerequisite.

As institutional investors, endowments and family offices looked toward private equity as a way to increase returns in the flat, low-interest rate environment of the 2000s, direct investing in the SRI space followed suit. “Social” investors did so with some real aspirations: creating social or environmental change while making a profit. “Impact investing” became a celebrated buzzword and gained traction as a way to complement traditional philanthropy. Instead of giving money away, why not direct capital to private equity and debt investments that had the potential to create the desired social or environmental outcome with a market-like or even above market financial return?

Of course that often came with a higher level of risk than was appropriate for many individual investors, and many of the early adopters experienced some frustrations if not real losses. Over time, however, the vehicles and market professionalized and more entrepreneurs, venture capitalists and innovators saw the financial potential in trying to solve social and environmental challenges. A new breed of social entrepreneurs created networks to connect investors with those looking for capital and more avenues were created. Peer-to-peer lending, hedge funds or fund-of-funds structures or exchange traded promissory notes soon made impact investing more accessible to SRI investors.

In addition, the evolution and scale of the modern SRI market lifted the aspiration of impact to all asset classes. One key to achieving this – at least in the portion of a portfolio that invests in large companies – was the time tested idea of corporate engagement. Once the province of the traditional early SRI investors, corporate engagement has evolved to leverage a sophisticated multi-lateral global model which brings stakeholders and corporations together to improve corporate governance, disclosure, and environmental and social outcomes for all stakeholders in the capital markets. Corporate engagement has become an integral part of the ESG framework as well, and it is clear that large asset owners have taken a page from the early SRI investors and embraced it. According to USSIF, from 2014 through the first half of 2016, 176 institutional investors and 49 investment managers controlling $2.56 trillion in assets filed or co-filed shareholder resolutions on ESG issues.
Global Compact was created to offer ten organizing principles for multi-national corporations on human rights, labor, anti-corruption and the environment. Nearly 10,000 companies in 168 countries around the world have adopted these principles and released over 40,000 reports on their progress in meeting them.

In early 2005, then UN Secretary General Kofi Annan called on the largest asset owners to help shape something called the United Nations Principles for Responsible Investment (PRI) to create a sustainable financial system. PRI brought some of the largest asset owners in the global markets together around six organizing principles. Under the auspices of the UNEP, PRI was launched at the New York Stock Exchange to create a network of asset owners around the world. The first principle was a commitment to integrate ESG into all investments. To date, 1,600 asset owners representing $62 trillion have become signatories of PRI and ascribed to the following ethos: “As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).”

Today, investors have more robust tools to assess corporate disclosure, corporate governance and environmental risks. Responding to the incredible growth and demand for ESG funds, Morningstar, the market leading arbiter of mutual fund ratings, announced in 2015 that it was teaming with ESG research leader Sustainalytics to offer ESG ratings of mutual funds. Morningstar will utilize a holdings-based analysis to derive the fund’s score. According to Morningstar, “providing fund scores on environmental, social, and governance factors is a natural extension of our work. We want to bring even greater transparency and accountability to the investment industry with ESG research, data, and tools, while helping investors to put their money to work in ways that are meaningful to them.”

In fact, the current surge in socially responsible investing and ESG would not have been possible without the type of research now available to Morningstar and individual investors. Amsterdam-based Sustainalytics, for instance, has over 100 analysts in thirteen countries and scores over 4,500 companies on ESG criteria. Bloomberg, the ubiquitous and robust ecosystem for professional investors also has ESG data available via a few keystrokes utilizing the Sustainalytics universe and the universe from data provider RobecoSAM, which focuses on identifying ESG risks material to investment performance by industry sector. Bloomberg also provides its own scores on governance risk and disclosure. With this kind of data readily available to investors, professional investors can make a call on which environmental, social and governance factors might be material to financial performance. That gives modern SRI a much broader appeal. Research vendors can provide not just scoring on ESG metrics but also revenue derived from a range of specific products from embryonic stem cell research (critical for many faith-based investors) to controversial weapons, animal testing or involvement in countries with severe human rights abuses (e.g., Sudan). There are also providers of research and ratings in many specific areas including carbon intensity, gender wage gap, animal welfare, life ethics, toxics and LGBTQ issues.

At the center of this process is information being provided by the companies themselves through greater required disclosure on ESG issues. Some of this transparency has come easily and some has been hard fought – the result of pressure from stakeholders and a push for global reporting standards. All of this has made the markets more transparent and has helped investors be more informed. What is measured can improve.

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[25] https://www.unpri.org/about/the-six-principles

\[4,500+\] Number of companies scored on ESG characteristics by ESG research leader Sustainalytics.
For some reason, the aspiration to build an investment portfolio aligned with an investor’s moral or environmental values was formerly an affront to the traditional investing mentality. There seemed to be an unwritten law that said a person should solely focus on making as much money as possible (by whatever legal means necessary) and then give away the excess to charity. Externalities or the negative social or environmental outcomes of the investment were conveniently ignored.

Most dedicated socially responsible investing firms realized early on that in order to gain acceptance, strategies needed to be evaluated against conventional market benchmarks for both risk and return. The skeptics greatly outnumbered the optimists on whether that balance could be achieved, and there was white-hot scrutiny on performance from day one. It could be argued that new and much more complex financial instruments based on the promise of a pure financial return faced much less skepticism and resistance to adoption than an SRI portfolio benchmarked against the well-known and understood S&P 500 Index. There apparently was something unsettling about considering environmental or social criteria in investing. The professionals who bore witness to the first decades of socially responsible investing can attest to this: if bull markets were built on a war of worry, SRI was built in an avalanche of arrows. The mantra from Wall Street was simple: if you do socially responsible investing, you will lose money. This was always the first question asked in the early days of professionally managed SRI strategies. Over half a century later, there is now a body of serious academic work focused on that question.

The conclusions of the academic literature on traditional SRI and ESG over the past two decades range from showing some cost, to little cost, to some benefit for SRI. In 2014, a TIAA-CREF analysis showed that over the long term, the leading SRI equity indices saw no material difference in performance versus broad market indices, “suggesting the absence of any systematic penalty.” More emphatically, a meta-analysis of 2000 empirical studies from 1970-2014 published in the December 2015 Journal of Sustainable Finance and Investing issue (Friede, Busch and Bassen, University of Hamburg, Germany) confirmed the de minimis impact of SRI and ESG screening on investment returns or risk.

“The results show that the business case for ESG investing is empirically very well founded. Roughly 90% of studies reports positive findings.

According to meta-analysis of 2,000 studies from 1970 - 2014, 90% found a nonnegative ESG–corporate financial performance relation. The large majority of studies reports positive findings.

* The performance information presented in this commentary does not reflect the past or future performance of any Bailard product, strategy or account. Past performance is no indication of future results. All investments have the risk of loss. There is no guarantee that an SRI or ESG strategy will achieve its investment objectives. Please see last page for important disclosures.

90% of studies find a nonnegative ESG–CFP (corporate financial performance) relation. More importantly, the large majority of studies reports positive findings.”

To many, the benefits may lie more in reducing risk versus adding return. In 2012 for example, Nofsinger and Varma (from Washington State University and University of Illinois law schools, respectively) concluded that SRI funds do worse in up markets but better in times of crisis.29

Academia has found positive correlations with sustainable business practices as well. A Harvard Business School study (Eccles, Iaonnou & Serafin) found that companies with more sustainable business traits outperform their peers over the long term.30 With such a rapidly evolving field, it should come as no surprise that much of the academic focus is driven by the era in which the study is conducted. For example, early studies focused on divestment issues while more recent studies focused on climate change.

Lloyd Kurtz, a black belt in SRI performance studies, is the head of Social Impact Investing at Wells Fargo and a lecturer at the Haas School of Business, University of California Berkeley Center for Responsible Business. He breaks down SRI/ESG academic studies into four eras. In his review of SRI/ESG studies, Looking forward Looking back: A Hitchhiker’s Guide to Research on Social and Sustainable Investment (Tilburg University, November 2012), Kurtz summarizes the eras in the following manner:

- **Pioneering Efforts (1970s and 1980s):** This era was highlighted by studies by Rudd (1979)31 and Grossman and Sharpe (1986)32 which used factor-based analysis to explain variances in South Africa-free equity portfolios.

With modern investment and portfolio construction techniques, SRI portfolios can be constructed with very similar characteristics as their benchmarks, which should result in an expectation of similar risk and return behavior.

- **Sustained Attention (1990s):** This period showed strong nominal performance of social investment benchmarks. The first notable study in this era by Hamilton, Jo and Statman (1993)33 concluded the use of negative screens did not have a major impact on performance.

- **Sustainability, Stakeholder, and the Search for Alpha (2000s):** This period offered papers like Derwall et al. (2005)34 and Edmans (2011)35 that demonstrated that superior sustainability and stakeholder performance improved both firm-level and stock performance.

- **Modern Era (2009-present):** This period responded to the global financial crisis with dozens of papers covering a wide range of topics from fixed income by Bauer and Hahn (2010)36 to the impact of shareholder engagement on the market by Dimson et al. (2012).37

Academic studies seem to consistently support the notion that financial factors drive performance more than any social criteria. That stands to reason. With modern investment and portfolio construction techniques, modern SRI portfolios can be constructed with very similar characteristics as their benchmarks, which should result in an expectation of similar risk and return behavior.

36 Bauer, Rob, and Daniel Hann. “Corporate Environmental Management and Credit Risk.” SSRNeLibrary 9December 23, 2010
37 Dimson,Elroy,Oguzhan Karakas, and Xi Li. “Active Ownership.” SSRN eLibrary (September 20, 2012).
For example, Bailard Wealth Management’s Sustainable, Responsible and Impact large-cap equity strategies are all benchmarked to the S&P 500 index. Despite having different criteria, the financial characteristics of each of these dedicated strategies bear a family resemblance to each other and the benchmark.

There are now multiple global ESG indices supporting even more growth in mutual fund or exchange traded investment vehicles focused on sustainable, responsible and impact investing. Dow Jones, FTSE, MSCI, NASDAQ, OMX, NYSE and the S&P all have ESG focused indices. In 2016, The UN launched the Sustainable Stock Exchange Initiative (SSE) to close the reporting gap on ESG issues on stock exchanges. The SSE now includes over 50 stock exchanges and 4 out of the top 5 in the world. According to Gwen Le Berre, Vice President of Corporate Governance and Responsible Investment at the world’s largest asset manager BlackRock, cross-border collaboration by stock exchanges will help shift public companies towards more comparable and meaningful disclosure of ESG (environmental, social and governance) risk factors. This will enable investors to more accurately value companies and make better informed investment decisions. **

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**BAILARD WEALTH MANAGEMENT ESG AND SRI PORTFOLIO MODEL CHARACTERISTICS**

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>SRI Model</th>
<th>ESG Model</th>
<th>SPDR S&amp;P500 ETF Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Yield</td>
<td>1.94</td>
<td>1.93</td>
<td>1.97</td>
</tr>
<tr>
<td>Price to Earnings Ratio (P/E)</td>
<td>20.79</td>
<td>21.14</td>
<td>21.76</td>
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<tr>
<td>Return on Equity (ROE)</td>
<td>14.40</td>
<td>14.28</td>
<td>12.86</td>
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<tr>
<td>LT Debt/Equity</td>
<td>84.33</td>
<td>79.73</td>
<td>86.92</td>
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<tr>
<td>BEst PEG</td>
<td>1.790</td>
<td>1.783</td>
<td>1.906</td>
</tr>
</tbody>
</table>

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** Characteristics are as of March 31, 2017 and are subject to change. The Bailard SRI and ESG model portfolios are actively-managed domestic equity portfolios benchmarked to the S&P 500 index. The portfolios typically hold between 45-55 individual stock positions. Environmental, social and governance (ESG) factors are considered throughout the investment process. Neither the ESG or SRI model portfolios invest in companies with significant revenues from tobacco, private prisons or controversial weapons. Neither strategy will invest in a company that does not have a woman on their board of directors. The SRI model additionally does not invest in companies deriving significant revenues from alcohol, weapons, gaming, pornography or nuclear energy.

The SPDR S&P 500 ETF Trust seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500 Index. The S&P 500 Index is a free float market capitalization weighted index comprised of 500 largest companies based on market capitalization and having common stock listed on the NYSE or NASDAQ. It is unmanaged, uninvestable and does not reflect transaction costs. Dividend Yield is an indication of the income generated by a share of stock. Calculated as the Ratio of Net Dividends Per Share and Closing Price, multiplied by 100, as of the date of analysis. With Index Method aggregation, a Harmonic Weighted Average approach is used with all the underlying components converted into the portfolio base currency. Price to Earnings Ratio (P/E) is the ratio of Closing Price to Trailing 12 Month Earnings Per Share (EPS) as of the date of analysis. With Index Method aggregation, companies with negative earnings are included and, in the case of multi-currency portfolios, price and EPS are converted into the portfolio base currency as part of the calculation. Return on Common Equity (ROE) is calculated as of the date of analysis as: [(Trailing 12 Month Net Income (Losses) – Trailing 12 Month Total Cash Preferred Stock Dividends / Average Total Common Equity)] * 100. The Index Method calculates the totals as the sum of securities’ contributions. Contributions for each measure as calculated as the (Security Level Measure / Outstanding Shares) * Number of Shares in the Portfolio. Price/Earnings to Growth (PEG) Ratio. The Price/Earnings Ratio uses the Forward 12 Month earnings per share (EPS) number, calculated as follows: the weighted average of the current fiscal year and next fiscal year estimates in proportion to the amount of time between now and the end of the fiscal year. The P/E ratio based on this forward EPS estimate is then divided by the current estimated Compound Annual Growth Rate (CAGR) of the company’s operating EPS over its next full business cycle, typically 3-5 years. The aggregation methodology is a harmonic weighted average. Long Term Debt to Common Equity is calculated as a percentage from the most recently reported quarter as of the date of analysis. The index method is calculated as: (Total Portfolio Long Term Debt / Total Portfolio Common Equity) * 100, in which the totals are computed as sum of securities’ contributions. Contributions for each measure as calculated as the (Security Level Measure / Outstanding Shares) * Number of Shares in the Portfolio.

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Markets change. Often rapidly. The Pony Express cut the time for transcontinental mail delivery from three weeks to ten days. It lasted only 19 months before it was replaced by the telegraph. The first "retail" mutual funds went public in 1928. Against the regulatory backdrop of the Investment Company Act of 1940, these funds saw unfettered dominance as the pooled vehicle of choice for retail investors for 75 years until the advent of the exchange traded fund (ETF) in the 1990s. Mutual fund hegemony is now seriously threatened by ETFs. Today, there are roughly 1,700 ETFs with assets over $2.5 trillion listed in the U.S. In 2016, ETFs accounted for 25% of the trading activity on Wall Street.40 Sustainable and responsible investing represents both rapid and gradual change in the investment world. SRI has persisted through each innovation, trend, fad and delivery system created. Whether applied to stocks, bonds, mutual funds, ETFs or private equity, SRI represents a process not an asset class. What began as a way to align portfolios with faith-based and progressive values has evolved to help Wall Street account for previously overlooked global risks and has influenced everything from accounting practices to listing requirements on public exchanges. Wall Street firms have progressed from staunch critics of SRI to participants as they enter this ever growing market. SRI has grown from a niche within the North American financial service industry to a global phenomenon. Built on conviction, SRI now flourishes because of its relevance.


DISCLOSURES

This communication is for informational purposes only and is not a recommendation of, or an offer to sell or solicitation of an offer to buy, any particular security, strategy or investment product. This communication does not take into account the particular investment objectives, financial situations or needs of individual clients. References to specific stocks are for illustrative purposes only and are not intended to represent any past, present or future investment recommendations. Charts and performance information provided in this presentation are not indicative of the past or future performance of any Bailard product, strategy or account. All investments have the risk of loss. There is no assurance that Bailard or any of its investment strategies can achieve their investment objectives. Past performance is no guarantee of future results. This communication contains the current opinion of its author and such opinions are subject to change without notice. Information contained herein has been obtained from sources believed to be reliable, but is not guaranteed. Bailard cannot provide investment advice in any jurisdiction where it is prohibited from doing so. The application of various environmental, social and governance screens may result in the exclusion of securities that might otherwise merit investment, potentially adversely affecting performance.
Blaine serves as a Senior Vice President and the Director of Bailard Wealth Management’s Sustainable, Responsible and Impact Investing (SRII) group. Blaine is on both Bailard’s fundamental and SRII investment committees, conducts social research, oversees corporate engagement efforts and maintains client relationships.

Blaine began researching and writing about corporate social responsibility in the late 1980s. He started his career in Socially Responsible Investing in 1991 at the Muir Investment Trust, the nation’s first environmentally screened bond fund. In 1996, he opened the California office for Trillium Asset Management, which he led for thirteen years. While at Trillium, Blaine managed socially responsible and sustainably focused portfolios, served on the firm’s investment committee and worked on corporate engagement efforts on a host of social and environmental issues from deforestation to media reform. Blaine also led the effort to create the “Joan Bavaria Awards for Building Sustainability in the Capital Markets”, which are presented each year at the Ceres annual conference and was part of the working group that created OpenMic to address net neutrality and media reform. In 2009, he joined Nelson Capital Management, where he was a partner and a senior portfolio manager. He also served on the firm’s leadership team and investment committee. Blaine chaired the company’s corporate engagement committee and was on the Extraction-Free and Animal-Welfare model teams. Blaine joined Bailard in 2016.

Blaine holds a BA from the University of California, Berkeley and CIMC® and CIMA® credentials. His writings on social investing have appeared in numerous publications including the San Francisco Chronicle, Houston Chronicle, San Jose Mercury News and London’s Environmental Finance magazine. Blaine has three children in college and lives with his wife and two dogs in Mill Valley, California. He has an eclectic taste in music and is an avid sports fan.
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