

## **Fiducient Advisors, Nonprofit Investment Stewards Podcast Episode 66, November 15, 2023**

### **From Overwhelmed to Empowered: How to Navigate ESG and Mission-Aligned Investing with Sarah Hinman**

[00:00:00] Welcome to Nonprofit Investment Stewards with Bob DiMeo and Devon Francis from Fiducient Advisors. Bob and Devon are passionate about helping nonprofit organizations prosper. Whether you oversee endowment, foundation, or retirement plan investments, this podcast exists to help stewards improve performance, reduce costs, and discover strategies that enable your charitable organization to prosper and advance its mission.

[00:00:26] Now, onto the show. Hello and welcome back to the Nonprofit Investment Stewards podcast. I'm Bob DiMeo. Always great to be joined by my business partner and cohost of the show, Devon Francis. Today, we'll delve into a topic we've covered on the show, but it definitely bears revisiting. That topic is ESG investing.

[00:00:48] We first tackled ESG as part of a three-part series way back in 2020. Over the years, we've touched upon it in other episodes, most recently with Scott Malpass, the former [00:01:00] CIO at the University of Notre Dame. If you haven't heard that episode, you definitely should go back and take a listen. But today we have one of Fiducient's very own joining us.

[00:01:09] She's a first timer on the show and we can't wait to introduce you to her. Devon, can you fill the audience in on what's in store for them today? Absolutely. Today we have Sarah Hinman with us. Sarah is a senior consultant with Fiducient. She works extensively with family, trusts and high-net-worth individuals and families, but she also works with many nonprofit organizations helping to oversee their endowment and foundation pools.

[00:01:34] Sarah co-chairs Fiducient's Mission Aligned Investing Committee, and also co-authored Fiducient's Guide to Mission Aligned Investing, along myself and our other frequent podcast guest, CIO Brad Long. Sarah has earned both a bachelor's and a master's degree in accounting, and she also earned a BS in fashion, marketing and management, which is a pretty unique background for a Fiducient employee.

[00:01:57] She has so many professional designations [00:02:00] and certifications that I almost can't name them all. She is a certified public accountant, a personal financial specialist, a certified financial planner, and a chartered SRI counselor. Suffice it to say she is beyond qualified to lead this discussion. So, Sarah, welcome to the show.

[00:02:17] We are so happy to have you. Thank you. I'm very excited to be on today. Great. So, before we dive into our conversation, for the benefit of the listeners, I just wanted to mention that there are a lot of acronyms in this space. So, we already mentioned ESG investing, which stands for environmental, social, and governance.

[00:02:37] Throughout our discussion, we also will likely refer to MAI or Mission Aligned Investing. There are a bevy of other acronyms or unfamiliar terms that folks may encounter in this space. So, if we happen to mention one of those during our discussion, we'll do our best to point that out and explain it. But the two terms that you'll hear us refer to most frequently are ESG and MAI. [00:03:00]

[00:03:00] Okay, so with the housekeeping out of the way, let's get into our questions. So, Sarah, first off, why don't you tell us your story? What was your career path? What did that look like? How did you come to focus on Mission Aligned Investing? Sure, sure. Well, I take it back to actually a morning in my early 20s.

[00:03:21] Um, in which I was at home in Southern Illinois after graduating from college. And I was taking our beloved family dog, Winston, out to the bathroom very early in the morning after what had been a very difficult day of the day before. And if you know me, you know, I'm not a morning person, so I generally don't pay attention to what's going on outside in the mornings.

[00:03:44] But on that particular morning, there was the most beautiful sunrise. And I remember thinking to myself very distinctly that, wow, today's a new day. It's a beautiful day. I remember the smell, um, that morning. I remember the [00:04:00] dew on the grass and I remember sitting with my dog, Winston, for about 15 minutes and just enjoying the sunrise.

[00:04:06] And I reflected on that moment for some weeks after that. And I came up with my own personal motto, as you will, to treat every day like a new opportunity. And that's very much carried with me throughout my life and has really driven some of my choices in my career where I've been open minded to other opportunities that might present themselves to me and that really speak to me personally.

[00:04:33] And so that had led me to a detour in fashion marketing, as you alluded to at the very beginning, Devon, from my previous career in accounting. That led to me to financial planning and my, my place here at Fiducient, but also my very first year here at Fiducient, I had an opportunity to work on a client project, implement a gender lens investing portfolio.

[00:04:57] And it was something that spoke to me [00:05:00] very personally based on my past experiences as well, but also its complexity and its nuances were very intriguing to me as well. And so that's, I've just put everything I've had into ESG and mission aligned investing, and I've been thrilled and honored to co-chair the firm's mission aligned investing over the last few years.

[00:05:21] Sarah, thank you for sharing. I've known you a long time and that's news to me and you already have me thinking, uh, obviously we're talking about mission aligned investing and such today, but we've had many types of episodes on the show, uh, leadership development, professional development. We almost have to have you back on, on one of those topics, but, uh, getting back to mission aligned, it would be great to get your take on mission aligned investing.

[00:05:46] Is the trend towards ESG and the like still continuing? Have we faced hiccups? Where do you see things today? Sure, I would definitely say there has been a slowing in the last year, year and a half. I mean, [00:06:00] there's been a lot of things happening in the world abroad. And I don't think there's been as much of a focus from our clients or in others on implementing new ESG strategies. Now that being said, we definitely have some things that are happening in the interim.

[00:06:16] So we have had a lot of regulatory updates and changes coming down the pike and some new standards that will be implemented in 2024. So, there's been a lot of movement and consolidation as well in the industry around those regulations and disclosure requirements. But that being said, the trend is definitely, it's not going anywhere, right?

[00:06:40] ESG has been here for thousands of years, um, the concept of it. And so really, I see it's been a little bit of a pause, but I still see it's top of many clients' minds, many investors' minds, and it's really kind of a pause and where do we go from here? Kind of a question [00:07:00] that I see facing the industry today.

[00:07:03] So Sarah, why don't you set the stage for us? What are the different ways to go about incorporating ESG investing? Sure. That's a great question. Think what comes most to mind is the traditional sense of ESG investing. So, let's say screening out the sin stocks, something that's known as values-based investing.

[00:07:25] You can do exclusionary investing or you can tilt positively towards the good actors according to your specific value set. Now that set of, that type of investing has been around for thousands of years,

going back to the biblical times, as I alluded to a little bit earlier, right? There's been a lot of evolution in approaches since then, really picking up starting, I'd say, in the 60s and 70s to what we see now today as the modern landscape of ESG investing.

[00:07:55] So that could consider concepts such as integration or [00:08:00] incorporating ESG factors into the investment process. It could incorporate shareholder engagement or proxy voting. It could incorporate impact investing, where you're investing directly in companies to target the change that you want to see in the world.

[00:08:15] So there's definitely been an evolution since biblical times of how you can apply ESG investing to your portfolio. And it's very dependent on the values that you would like represented. So I'm hearing that the evolution has been, um, you know, kind of, we started off with more of an exclusionary approach and perhaps evolved into a more integrated approach.

[00:08:40] You know, as a, as some of our longtime listeners know, we at Fiducient have a very robust manager research team. As you talk with our colleagues within that team, what are they hearing and seeing from managers? Sure. So we're seeing a lot of managers indicate that they're [00:09:00] incorporating ESG factors into the investment process.

[00:09:03] And we say many, many managers, if not all managers. In fact, we took a survey of our recommended managers and 86% came back noting that they were applying ESG integration as you will. Um, and this was a survey conducted about a year or two ago at that time. So, our team did a little bit of a deeper dig and wanted to really get into the granularity and materiality of what they were applying accordingly.

[00:09:34] So we gauged and assessed the respective managers across the lineup to determine if they were really practicing ESG integration or not. So, we applied three levers as you will. I think we, we, we talk about three pillars and three levers quite a bit at the firm, and we applied it in this framework as well. And so, we wanted to know, is it observable?

[00:09:59] Is it [00:10:00] material? And is it measurable? And once we applied those levers or gauges, we were able to drop that number of 86 percent reporting ESG integration all the way down to 36 percent practicing meaningful integration. So, I think it speaks twofold to one, an element of greenwashing and, and the industry that is still prevalent today, but two, the infancy of the ESG integration uh, and the industry today as well.

[00:10:35] And as, and as we all, as investors, money managers, consultants get our hands and wrap around, you know, what does ESG integration actually mean? I think we will start to see more meaningful reporting and disclosures appropriately in the future. Yes, Sarah. That's interesting because I think on the one hand, it's encouraging, right?

[00:10:58] There are many [00:11:00] committees, investment committees and finance committees and such, that might not have even thought about ESG or MAI, mission aligned investing until recently, but it's encouraging to know that their managers, at least to some degree, are probably doing something. So that's encouraging. On the other hand, you've seen this, Devon and I have seen it.

[00:11:18] It can be overwhelming to a committee to go down this path and so we'll pose a question to you that we asked Scott Malpass recently, and that is, is ESG or MAI investing, is it an all or nothing proposition? It's definitely not an all or nothing proposition. I'll take you back to a story and the one that I alluded to at the, at the top of the podcast regarding the gender lens investing story.

[00:11:47] And we were implementing this strategy, you know, five, six years ago at this point. And data looks very different today than it did five or six years ago. And I remember. [00:12:00] You know, one of the, couple of the values that we were looking at was, one, women on boards, right? That's a very objective. You can determine very easily that data and screen appropriately.

[00:12:14] But the other one was equal pay. And equal pay, especially five or six years ago, right, was voluntary disclosures. You know, inconsistent disclosures, perhaps, right? Very hard data to come by. And so, while we were able to implement a, uh, a screen accordingly for the women on boards, what we did on the other hand for equal pay is really lean into managers that were advocating and engaging with companies directly via shareholder engagement, practicing proxy voting in order to improve the data disclosure on equal pay.

[00:12:54] So it's a, it's a myriad of approaches that you can take. It may be different [00:13:00] by each value that you want represented in the portfolio. Um, in some cases, it's not material, right? If you have a treasury bond allocation in the portfolio, there's likely not much you can do with a treasury bond allocation.

[00:13:13] But it's being mindful and thoughtful about how you implement overall while ensuring your philosophy and approach to the overall investment portfolio is still intact, and then optimizing the impact and values on the ESG spectrum as well. That brings to mind something that Brad Long frequently says, which is, don't let perfect be the enemy of the good.

[00:13:37] And we talk about that at the MAI committee frequently. You know, you do what you can in, in a client's portfolio to help express their values, but it's not always possible to do it, you know, with the utmost precision in every single asset class. So, I think that's a helpful perspective. So, Sarah, let's say a client comes to you and says they're [00:14:00] interested in ESG investing.

[00:14:01] What is the first step in the process? Great. The first step in the process is really honing in on the values that you want represented. So commonly when we're working with nonprofit organizations, we'll, we'll set out a survey to every committee member and really gauge their responses as to the values that they want represented in the portfolio, what's most important to them.

[00:14:28] Why they are doing it. What's the motivation behind pursuing mission aligned investing for the organization? And then lastly, you know, what exactly do they want as an end result, right? What impact do they want to make as well? And statement do they want to make with a mission aligned investing portfolio?

[00:14:46] So with committees, it's very much, you know, getting to a consensus with a number of individuals. With some organizations, right, their mission is very easily translatable to an investable value set. [00:15:00] With other organizations, it may, it may not be as easily translatable. And I've seen in those cases that, you know, there's more.

[00:15:08] Conversations around what exactly they want represented in the portfolio, so it's definitely a robust conversation to have. It's a robust conversation that we help our committees tackle and lead those conversations accordingly. And I would say on the flip side, when I'm working with private investors as well, it's actually a very similar conversation, just with a smaller number of folks to determine the overall consensus.

[00:15:37] Yeah, Sarah, I think one of the most fulfilling and rewarding parts of advising our hundreds of nonprofit clients, whether it's you or Devon or me or others, is helping these nonprofits advance their mission. There are so many unique missions. And then that translates when you think about ESG or MAI, all unique approaches, right?

[00:15:59] And it's not [00:16:00] our intention, nor do we impose our values. It's really sorting the organization's values and then trying to figure out, is there a way that we can construct a portfolio to give them a fighting chance of achieving those objectives? Right? But that has a reliance upon data and it's interesting when we talk about data, the various agencies and such that are rating and scoring on ESG and other metrics.

[00:16:29] Can you talk a little bit about what the industry is doing? Are you seeing material improvement? Are we working towards more consistency on the data front? Great question. And I understand why some of our clients are so intimidated by approaching ESG investing because the data landscape is overwhelming, to say the least.

[00:16:54] And in the simplest of sense, perhaps to take our readers back to what's the [00:17:00] conversation around data? Why are we talking about this? And one branch of the conversation, you have data that is very objective that you can screen and do all sorts of things with. So, let's say, is the company a gun manufacturer or not, right?

[00:17:18] That is a very binary question, yes or no. You can't skirt around the issue there. But where it might be a little bit different or subjective is, let's say, you know, environmental impact. What is a company's environmental impact? Are we measuring this on scope one, scope two, scope three emissions, right?

[00:17:40] There's a lot of subjectivity in that analysis. And that is why you see these ratings from one agency to another really have very low correlation. Whereas if you were to look at a bond rating agency, right? Bond ratings tend to be very [00:18:00] highly correlated, very easy data to discern and analyze, but we're still wrapping our, our heads around.

[00:18:07] What does it mean to be a good company according to a certain value set? And so of course, it is very overwhelming to understand and discern all the different ESG ratings, but I think that's also why we do such a great job here at Fiducient and going through our practical step by step process that we lay out in our guide to mission aligned investing, that very first step being to define the value set, and then we take on the ground work for our clients and, and really zeroing in on the actual data sets.

[00:18:45] That we need to explore and walking through our clients and helping them understand the objective or subjectivity of the data and how they can use that data to apply different screens or [00:19:00] incorporate other elements or other approaches to mission aligned investing, such as integration, shareholder engagement and impact investing.

[00:19:07] That's great, Sarah. So, you've given us a very helpful you know, framework as to what the ESG and MAI landscape looks like right now, you've given us a little flavor of what it looked like historically. If you take out your crystal ball, what do you see for the future of ESG and emission aligned investing?

[00:19:28] Sure. Great question. I think the next couple of years will be very consequential in the mission aligned investing landscape. We're starting to see new regulations go, and go in force, starting next year. So, it'll be interesting to see how the data evolves over time to see if there's more consistency around data and to see if more data will be available.

[00:19:53] More opportunity sets of values may be implemented in portfolios as well. So, I definitely see the [00:20:00] conversation evolving. Like I mentioned before, this concept has been around for thousands of years. I don't see it going anywhere anytime soon, but I think as we, as investors, as consultants, grapple with the concept of mission aligned investing and how to implement it in the portfolio.

[00:20:17] I do think it won't be quite so daunting in the future as some of these regulations and mandated disclosures will start to come into fruition. Sarah, there is no doubt you're an expert in this space and we so much appreciate you sharing these many insights. Is there anything else you'd like to share or underscore at this point?

[00:20:40] That's a great question, Bob. You know, I would just, for those wanting to learn more about Mission Aligned Investing, I would definitely point you to our guide to Mission Aligned Investing, where

we go into detail about all the different steps that we've alluded to here in this conversation today.  
[00:21:00] I would also point you to a couple of blog posts or white papers that we've written at the firm.

[00:21:06] One by my fellow co-chair, Kevin O'Connell, and the most recent one that we co authored, um, really taking into account some of the politicalization of the conversation, uh, in the, in the recent years, and then also more recent trends, speaking to the regulations, um, in the industry as well. You can find more details in those white papers and blog posts.

[00:21:31] Yeah. Thanks for pointing folks to, to those pieces of collateral. Cause I do think that the education is such an important aspect of this. It's important for folks to really get their arms around the very complex nuances with regard to ESG investing. So, thank you for pointing that out. So, before we wrap up, as you know, we always like to learn a little bit more about our guests on a personal level.

[00:21:59] So is there [00:22:00] any way that you incorporate ESG or MAI into your own personal life? I do. I very much do. And for those of you who know me, I grew up in Southern Illinois and I grew up gardening, gardening, gardening, um, and I've, I've really come back full circle to that lifestyle, moving here to Utah in the last couple of years and moving into a home where we have started our own vegetable garden in the back.

[00:22:30] And unbeknownst to us, the trees that are in our backyard are also crab apple trees. So, we just harvested about 2,000 crab apples, which I was wholly unprepared for. But next year, well, I've made some chutney and some cider this year. Next year, we'll be more prepared to, to make in mass. And we've also had a really nice abundant crop of tomatoes and zucchini, and we're just getting started here.

[00:22:58] So really, [00:23:00] living off the land a little bit, as you will, and trying to be as environmentally and thoughtful about food waste, too. That's wonderful, Sarah. Thank you. And maybe Bob and I will have to plan a little field trip for some caprese salad in the summer or cider, apple cider, in the fall. You're reading my mind, Devon.

[00:23:20] Oh, great. Well, Sarah, thank you so much for joining us today. You really are a wealth of information. Your expertise is, is very impressive and we are not only thrilled to have you on the show but thrilled to have you as a colleague. So, thank you very much. Thank you so much for having me. This has been a blast.

[00:23:39] Sarah, great to have you on the show. We really appreciate it. As always, many thanks too go out to our listeners for all your support. We'll include a link to Fiducient's guide to mission aligned investing that Sarah mentioned in the show notes. Uh, and of course we invite you to visit [Fiducient.com](https://fiducient.com) for many resources regarding mission aligned and a lot more on the topics that Sarah touched on.

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[00:24:00] So to all you good stewards, thanks for investing time to help your nonprofits prosper. We'll connect with you soon on the next episode. Thank you for listening to the Nonprofit Investment Stewards podcast. Click the subscribe button below to be notified of new episodes and visit [fiducientadvisors.com](https://fiducientadvisors.com) for more information. The information covered and posted represents the views and opinions of the guest and does not necessarily represent the views or opinions of Fiducient Advisors.

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