



THE COLONY GROUP INVESTMENT PHILOSOPHY

# Sustainable Investing

At The Colony Group, our approach to wealth management is designed to help our clients achieve fulfillment and find meaning and joy in their lives. For many families and investors, their investment portfolio is a means to this end. A number of our clients have supported causes, charities, or organizations that are important to them, through donations, advocacy, or volunteerism. Increasingly, many clients want to align their investments with their values and combine both their financial and non-financial goals. We support these aspirations by providing a variety of investment solutions and thoughtful advice tailored to their unique goals.



**The Colony Group**

# How to incorporate sustainability into investing?

Sustainable investing has evolved over many decades, and there are several approaches investors can use to incorporate their values into their portfolios.



## Socially Responsible Investing

The most traditional method involves exclusionary or negative screening (the avoidance of certain companies based on values, ethics, religious beliefs, or societal norms). This approach to investing was popularized in the 1960s-1980s as institutions divested from companies or industries involved in controversial issues, such as the Vietnam War, Civil Rights, Women's Rights, nuclear energy, fossil fuels, and Apartheid.

## ESG Integration

Since the 1990s, the emphasis has gradually shifted toward integrating Environmental, Social, and Governance (ESG) criteria into the investment process. The focus evolved from avoiding companies with harmful business practices or products to investing more proactively in firms whose ESG practices have a positive impact on society. ESG integration focuses on both the material risks and opportunities companies face. This approach was further popularized due to research suggesting that there can be a positive correlation between the consideration of ESG criteria and financial performance.

## Impact Investing

As investors have generally become more comfortable with private strategies, opportunities have come to market for investors to have an even more tangible effect with their capital through Impact Investing. This approach involves investing in companies or funds that operate with a "double bottom line"- they seek to deliver both a financial return and a measurable social or environmental return. While increasingly more impact investments are available through public markets, the majority of opportunities remain private.





## Identifying Strategies

Colony Investment Management can offer solutions across these varied approaches. To identify sustainable investment solutions, we follow the same rigorous research process as our other investments. First and foremost, we seek impelling investment opportunities with managers focused on developing a superior philosophy, process, team, and resources. Furthermore, we identify managers whose proprietary research processes explicitly integrate ESG criteria throughout the investment process, effectively uncover material ESG risks and opportunities, and do not rely exclusively on third party ratings as ESG inputs. This focus helps to ensure a high level of consistency and transparency in the research process. Finally, we seek managers that have demonstrated a history of proactive shareholder advocacy and company engagement and are able to clearly report and articulate the impact they have on their investments.

We believe shareholder advocacy and company engagement (active ownership) are two important contributors to achieving financial and non-financial success. There is no such thing as the perfect company; active ownership helps good companies become better. By being an active owner in the businesses (either through a fund or direct holding) and engaging with management on material ESG issues to effect change, investors have a more measurable impact. In addition, research suggests that active ownership can be a key driver in improving corporate performance.



### Environmental

- Climate Change
- Energy Efficiency
- Waste and Pollution
- Water and Resource Scarcity



### Social

- Health and Safety
- Stakeholder Concerns
- Workplace Diversity
- Labor Conditions



### Governance

- Audit Quality
- Board Structure
- Remuneration
- Shareholder Rights

As examples, consider the recent engagement efforts of some of the strategies we have selected:

## Environment

In 2011, a large data services provider had no public plan to address the environmental risks in its business. Environmental and sustainability considerations were left entirely up to their customers and suppliers. The strategy's investment manager filed shareholder proposals in 2011, 2012, and 2013 seeking climate risk disclosures from the company, including quantitative data related to their data centers' energy usage. In response to the shareholder engagement, the firm built a task force related to climate change and energy and hired Directors of Worldwide Sustainability and Social Responsibility. As of 2017, their data services centers were 50% powered by renewable energy.

## Social

In 2017, a transportation authority sought to issue the first ever, tax-exempt sustainable bond funding a range of capital projects with a social or environmental focus. One of the investment managers evaluating the bonds engaged with the issuer to better understand the financial and sustainability performance of the issuer in serving area residents and commuters. The manager also offered recommendations on key issues such as disclosure and impact reporting. As a result, the issuer established a strategic plan to strengthen the regional economy and promote social equity and published a Sustainability Report. The report highlighted funded projects, such as improving bus stop accessibility for seniors and individuals with disabilities.

## Governance

An increasing spotlight has been put on the importance of diversity on boards and in executive leadership at companies. In 2013, an investment manager noted that a company it was considering for investment had only one woman on its 11-member board of directors and that women comprised only 11% of its executive leadership team. The investment manager undertook a campaign of proxy voting, letter writing, and requests for information. After a year of unresponsiveness, the manager collaborated with other investors and filed a board diversity shareholder proposal. The action opened the dialogue with the company who took steps to amend its governance guidelines and committed to actively seek out highly qualified women and minorities for board nominations. Since then, the company has appointed three additional women to its board, significantly increased the percentage of women in executive leadership, and hired a Chief Diversity Officer.

# Evaluating Performance

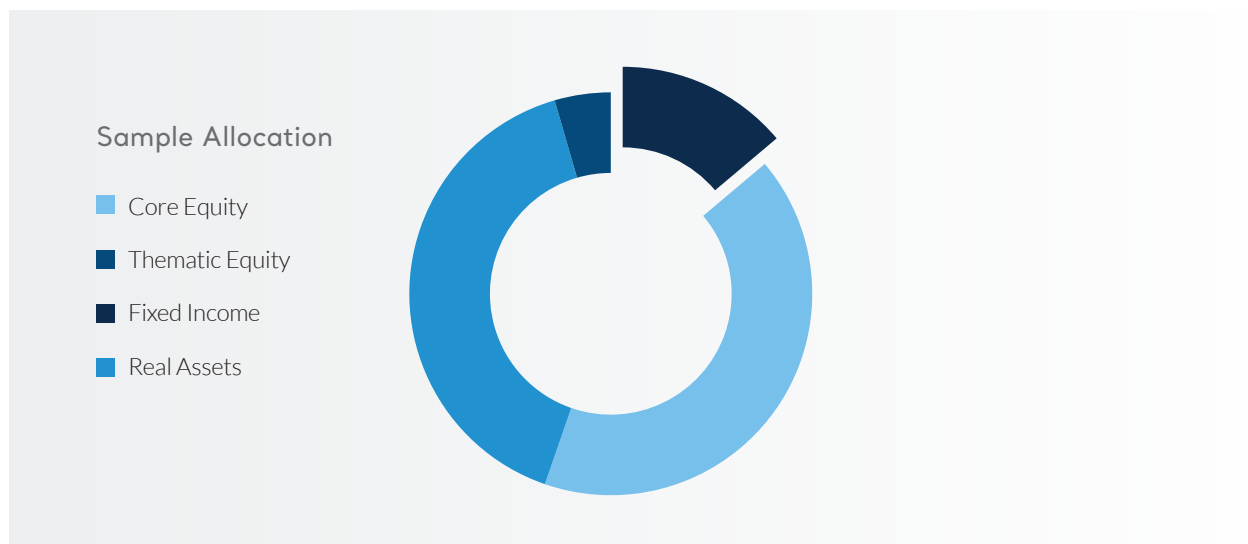
Our view is that sustainable investing should balance both the financial and non-financial objectives of the client. To that end, it's important to understand the potential financial impact of integrating sustainability into a portfolio. The topic has been studied at length by both academics and market participants, including in our paper *Exploring Sustainable Investing and Portfolio Outcomes* that reviews the findings of several seminal studies on the topic. The evidence suggests that integrating sustainability criteria into a portfolio does not inherently have a negative effect on performance. Furthermore, some studies point to the potential for higher returns as positive ESG practices can be correlated with lower cost-of-capital, better operational performance, and higher valuations. In addition, active ownership may also contribute positively to future financial performance. While there may be differences in short-term results, our expectations are that ESG-integrated strategies can compete against the broader universe of investment strategies over the long-term.

# Building a Portfolio

Building a portfolio that balances sustainability goals with financial goals requires a diversified and flexible approach. Our Sustainable Investing solutions strive to help our clients:

- 1 Earn a competitive return
- 2 Align their investments with their values and issues that matter most to them
- 3 Have a positive, global impact

Impact measurement and reporting are also key objectives. We seek broad diversification across asset classes and risk and return characteristics that do not significantly alter a client's wealth plan. We achieve this by complementing core exposures with client-specific thematic tilts.



## Core Equity

The majority of our clients' sustainable equity exposure is invested in core, diversified strategies that reflect our long-term target recommendations for portfolios across our client base. We implement through managers who have shown a commitment to provide broad market exposures, limit exposure to material ESG risks, capture ESG opportunities, and use shareholder engagement as their primary tool for the advancement of shareholders' financial and non-financial goals.

## Thematic Equity

Many clients have specific themes they wish to express in their portfolios such as environmental issues, water access and quality, workplace culture, or women's leadership. We recommend allocating a portion of their equity portfolios to thematic funds which allow the clients to achieve a greater impact on the issues that matter most to them.

## Fixed Income

Sustainable fixed income investments are implemented primarily through managers investing in responsible issuers across the municipal and corporate landscape. In addition to core positions in corporate and municipal issuers that have shown strong ESG characteristics, portfolios can also include bonds that have measurable impact to such themes as affordable housing, community and economic development, renewable energy, and climate change, and natural resources.

Certain strategies within our fixed income allocation offer valuable diversification benefits, yet they may not explicitly consider ESG criteria. Examples include high-yield bond funds or funds with mandates that allow them to invest in multiple sectors of the global fixed income market. In this non-core fixed income space, we seek evidence of a manager's commitment to considering ESG issues but recognize that integration of these issues may not be explicit.

## Real Assets

Within public market real assets, we tend to focus our efforts on real estate. This area can be a natural fit for sustainability-minded investors as developers and property managers may have an incentive to develop more environmentally friendly properties to drive down operating costs and attract tenants. In private strategies, we can target investments in areas such as renewable energy and sustainable infrastructure.

### SUMMARY

Whether a client wishes to allocate a small portion of the portfolio to sustainable investments or integrate these objectives across the entire portfolio, our solutions are designed to be flexible and offer a range of approaches based on client objectives, priorities, and other considerations. Our team includes wealth advisors, investment professionals, and experts in sustainable investing. We are committed to identifying compelling opportunities which support our clients' financial and non-financial goals and empower them to use their assets in impactful and meaningful ways.



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