Black Diamond
WEALTH PLATFORM

THE TRIPLE BOTTOM LINE:

The Future of Wealth Management is ESG Investing

Environmental, social, and governance investing has proven to attract, retain, and serve the needs of today's investors, while also contributing to the overall sustainability of the planet for future generations.

Gone are the days when investors only cared about the bottom line. More and more investors are looking to align their investment objectives with their values. Larger investors seek to influence positive corporate behavior through their capital allocations. And a growing body of evidence indicates that companies that hold themselves to high environmental, social, and governance (ESG) standards deliver better financial performance in the long run. This confluence of trends has brought ESG investing to the forefront of investment conversations. In one of the market's most volatile and unpredictable periods, ESG is proving to be a bright spot. In fact, according to research firm ETF Flows (as reported in MarketWatch), new flows into ESG funds reached $15 billion in just the first six months of 2020, on pace to break the record set in 2019, when they quadrupled over the previous year.[1]

Surveys confirm that investors are increasingly interested in sustainability. One segment particularly attuned to ESG investing is the millennial generation—those born roughly between 1980 and 1995. A 2020 report from Morgan Stanley indicates that 95% of millennials in the market want to tailor their investments to their values.[2]

While sustainable or responsible investing is far from new, ESG investing today is more nuanced and requires much more research into the fine print of company initiatives. With no official standards, ESG factors are historically not included in financial analysis. However, investment managers are rapidly adopting ways to factor ESG into their decisions, not only to better align investors' goals with their values but also to help overall investment performance.

Wealth managers are leveraging technology innovations to "tilt" portfolios towards sustainability, generate strong returns, and better differentiate their firms. As the great intergenerational wealth transfer takes place, and as millennials and women take on greater influence as decision-makers, ESG can potentially give wealth managers a competitive advantage.

> New flows into ESG funds reached $15 billion in just the first six months of 2020, on pace to break the record set in 2019.

Who Runs the World?

Why Women-Led Businesses outperform

According to the Peterson Institute for International Economics, a survey of 21,980 firms from 91 countries found that having a woman in the C-suite increases net margins by one percentage point. That represents a 15% increase in profitability for a typical firm in the survey. Women-led businesses outperform, and women in senior leadership contribute significantly to business success. Diversity is a strong predictor of economic value and a proven ESG factor.

Companies with women in top management positions produce more patents, are more reputable, and have higher retention rates. Diversity leads to different perspectives, which can drive greater innovation. As ThinkAdvisor put it, "Women in leadership, equal pay, board diversity, labor standards, community relations—these are all ESG issues, and they are all women's issues. For advisors who are looking to expand their client base or be more inclusive of their current clients' spouses, offering women the opportunity to invest in things they care about can be a differentiator. Women investors want to invest in sustainable companies without compromising returns; part of being sustainable is investing in women. One could argue that it's a triple bottom line."*

* Emma L. Smith & Jessica A. McHugh, "Women and ESG Investing Intertwine," ThinkAdvisor, January 31, 2019 , https://www.thinkadvisor.com/2019/01/31/women-and-esg-investing-intertwine/

ESG and Risk Reduction

The rise of ESG is due in large part to its ability to deliver long-term investment returns, but also its role in reducing risk. Today, corporations face unprecedented risk related to climate concerns and environmental impact, use of water and other natural resources, worker treatment throughout the supply chain, and the safety and usefulness of products. Many investors want clarity to assess and measure companies' progress in addressing these risks.

The widespread growth of consensus around sustainability concerns has propelled ESG investing. Now, even the world's largest asset manager, Blackrock, calls for ESG in reporting and will make ESG a key criterion in any new company in which it invests.[3]

The Impact of Emerging Investors

Studies show that many millennials prioritize social responsibility in their daily lives, whether through the products they purchase or the organizations they support. It's no surprise that as they accumulate their wealth, they want their investment portfolios to mirror these passions. The Morgan Stanley study cited earlier found millennials are twice as likely as the overall investor population to invest in companies targeting social or environmental goals.[4]

America's 71 million millennials represent $600 billion in annual spending, a figure expected to grow to $1.4 trillion annually in 2020, according to Accenture.[5] Not only will they continue to power the demand for ESG investing, but millennials are the key to the future of wealth management, as they will inherit $30 trillion over the next several decades.[6]

According to a study by EY,[7] when assets change generations, the previous generation's advisors typically lose 70% to 80% of those assets. Consequently, wealth managers who supply millennials with value-based investment options will be well-positioned to retain beneficiary millennial clients, as well as to attract new, like-minded investors.

How ESG is Transforming Investment Management

As wealth managers seek to capitalize on the growing demand for ESG investment solutions, there are several perspectives and disciplines they should consider incorporating into their investment processes. Chief among them:

Recognition of ESG as alpha seeking. Data from asset management start-up Arabesque found that S&P 500 companies that ranked in the top quintile for ESG factors outperformed those in the bottom quintile by more than 25 percentage points between the beginning of 2014 and the end of June 2018, while their stock prices were less volatile.[8]

America's 71 million millennials represent $600 billion in annual spending, a figure expected to grow to $1.4 trillion annually in 2020.

ESG screens. Wealth managers may offer negative screening through managed accounts—a process that excludes certain categories of stocks from a portfolio. A range of criteria can be used to screen funds and managed accounts, including traditional SRI screens such as alcohol and tobacco. Business ethics screens including such issues as child labor or animal testing are also gaining popularity.[9]

Transparency and reporting. Investors want more transparency on the ESG characteristics of their investments—they want to "know what they own." Not only are investors asking about ESG in their portfolios, they also want to understand the benefits of ESG. Technology platforms can now provide detailed reporting and analysis of ESG factors. Regulators are also questioning ESG labeling and demanding detailed reporting to prevent "greenwashing," making detailed analytics more valuable than ever.

Direct indexing. Direct indexing refers to the construction of an SMA portfolio through direct stock selection that mirrors the performance of funds tied to a particular index or strategy (learn more). Through advanced rebalancing technology, advisors can build ESG tilts into the portfolios they provide to clients. Portfolios can be designed for single ESG factors (for example, women in leadership), multiple factors (women plus environmental and no child labor), or everything in between.

ESG Capabilities as a Differentiator

While meeting investor demand and potentially delivering superior returns, firms that adopt effective ESG practices stand to reap additional business benefits. ESG investing gives advisors a new marketing message, differentiating the firm to investors looking to align their investments with their values. It can also open an avenue of growth with priority clients—millennial and women investors—who trust that advisor to take their investments into the future. ESG can further help advisors rationalize fees by demonstrating significant value relative to less costly competitors or free robo services. Internally, firms can scale and increase productivity with portfolio analytic technology solutions that make it easy to compare, contrast, and construct ESG portfolios.

As environmental, social, and governance investing continues to take root, wealth managers must adapt to attract, retain, and serve today's investors. An ESG offering can help align clients' portfolios with their values while contributing to overall sustainability for future generations—a win, win, win for investors, advisors, and the environment.

Where to Begin: ESG Technology Integration

Technology is playing a major role in helping advisors navigate the ESG landscape. A number of research firms have emerged in recent years with solutions for scoring and ranking companies on ESG attributes. Technology can also provide a platform for accessing ESG solutions and streamlining the research process. For example, users of the Black Diamond® Wealth Platform can access a wide range of ESG strategies from leading fund managers via SMArtX, a full-service, turnkey asset management platform (TAMP). Advisors can access the SMArtX platform directly through Black Diamond to construct customized SMA portfolios for clients that incorporate ESG funds. Act Analytics, a leading technology platform for ESG investing analytics, is also a Black Diamond integration partner. Advisors can download portfolios from Black Diamond into a comprehensive ESG analytical framework, enabling them to compare and contrast portfolios with benchmarks from more than 200 ESG factors across 100,000 mutual funds and ETFs, and more than 20,000 publicly traded securities. These analyses help advisors generate trade opportunities and report on both individual and overall ESG scores.

In addition, advisors can leverage Black Diamond integrations with financial planning and risk analytics providers to develop plans that reflect their clients' ESG preferences and interests, and demonstrate to clients the impact of ESG in their portfolios. To learn more about the Black Diamond Wealth Platform and its integration network, please call 1-800-727-0605, email info@advent.com, or visit blackdiamond.advent.com.

ESG investing gives advisors a new marketing message, differentiating the firm to investors looking to align their investments with their values.

1. Andrea Riquier, "Sustainable-investing flows have smashed records in 2020. What's going on?" MarketWatch, July 16, 2020, https://www.marketwatch.com/story/sustainable-investing-flows-have-smashed-all-records-in-2020-whats-going-on-2020-07-07
2. "Swipe to invest: the story behind millennials and ESG investing," MSCI ESG Research LLC, March 2020, https://www.msci.com/documents/10199/07e7a7d3-59c3-4d0b-b0b5-029e8fd3974b
3. Pippa Stevens, "Here's how the world's largest money manager is overhauling its strategy because of climate change," January 14, 2020, https://www.cnbc.com/2020/01/14/blackrock-is-overhauling-its-strategy-to-focus-on-climate-change.html
4. "Swipe to invest: the story behind millennials and ESG investing," MSCI ESG Research LLC, March 2020, https://www.msci.com/documents/10199/07e7a7d3-59c3-4d0b-b0b5-029e8fd3974b
5. John Rotonti, "Your Guide to ESG Investing: Socially Responsible Stocks," The Motley Fool, August 26, 2020, https://www.fool.com/investing/what-is-esg-investing.aspx
6. "Sustainable investing: the millennial investor," EY, 2017, https://www.ey.com/Publication/vwLUAssets/ey-sustainable-investing-the-millennial-investor-gl/$FILE/ey-sustainable-investing-the-millennial-investor.pdf
7. ibid.
8. Matthew Heimer, "Doing Well by Doing Good: 5 Stocks to Buy for 2019," Fortune, December 5, 2018, https://fortune.com/2018/12/05/best-stocks-esg-2019-walmart-abbott-merck/
9. "Swipe to invest: the story behind millennials and ESG investing," MSCI ESG Research LLC, March 2020, https://www.msci.com/documents/10199/07e7a7d3-59c3-4d0b-b0b5-029e8fd3974b

The Black Diamond® Wealth Platform is an offering of SS&C Advent, a business unit of SS&C Technologies.

An award-winning, cloud-based solution, Black Diamond is designed to meet the complete business needs of wealth management professionals and their clients. Complete with performance reporting, portfolio rebalancing, an immersive client portal, and more, the platform also connects to a vast ecosystem of smart integrations. Proactive, personalized attention from a dedicated service team ensures advisors receive access to an elite combination of technology and service.

Financial management firms of all sizes leverage Black Diamond to streamline operations, deliver business insights, and connect with both prospects and clients to build long-lasting relationships.

To learn more about how the Black Diamond Wealth Platform can support your business and connect you with your clients, call 1-800-727-0605 or email info@advent.com. You can also visit blackdiamond.advent.com.

Black Diamond
WEALTH PLATFORM