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Sada Geuss
February 28, 2019

Councilor Lydia Edwards, Councilor Michelle Wu, and members of the committee: Good afternoon and thank you for giving me the opportunity to speak today.

My name is Sada Geuss. I am an investment manager at Trillium Asset Management, and have been providing investment advisory services to individual and institutional clients for over 15 years. At Trillium, 100% of the investors I work with include environmental, social and governance considerations in their investment programs.

As an Accredited Investment Fiduciary, I fully understand the demands of building portfolios that seek to maximize returns while managing risk. I am here today to share Trillium's approach to Sustainable and Responsible Investing in the hopes that this information is helpful as the Committee looks to discuss investment disclosure, transparency, divestment, and socially responsible investment.

Our employee-owned firm, headquartered in Boston, has managed socially and environmentally screened investment portfolios for individuals and institutions since 1982 and now has over $2.5 billion of assets under management. Trillium takes a comprehensive approach to sustainable and responsible investing through multiple techniques which we believe individually are each essential, but collectively create a more positive impact. The approaches include exclusionary screens, positive ESG (Environmental, Social and Governance) integration and shareholder advocacy.

The first step in the comprehensive process for Trillium is to determine what values and investment principles are most important for our clients. The next step is to create a clear process to ensure that the investments in your portfolio are intentionally constructed in a manner that reflects those values. In our experience, excluding specific industries has been an integral part of making positive ESG integration techniques a credible investment approach. Typically when accurately measuring ESG risks, (for example stranded asset, reputation and litigation risk for oil companies) you would identify certain industries that are less attractive investments, and may even present too large of a financial risk to include in your final portfolio. As a company, Trillium applies exclusionary screens for Tobacco, Gambling, Private Prisons, Coal and the dirtiest Fossil Fuels, among others. By eliminating those industries from initial analysis, Trillium's managers can free up time and resources to invest in companies which actually align with our clients' values, but also more effectively identify companies that are mitigating ESG risks and taking advantage of material opportunities.

This piece of the process is referred to as positive ESG integration, and involves seeking to invest in companies with better environmental and social practices. In our experience, one of the most effective ways of doing so is to identify the material ESG issues, specific to each individual industry, which are most closely linked to financial performance of a company. We believe that by integrating material ESG factors into the investment process, we are able to identify better managed companies that are positioned to perform well in the long term.

Many independent studies back the credibility of this investment approach. Gunnar Friede, et. al, aggregated evidence from more than 2,000 empirical studies, and concluded that, “Roughly 90% of studies find a nonnegative ESG–CFP [corporate financial performance] relation. More importantly, the large majority of studies reports positive findings.” [1] It is notable that the majority of the funds reviewed employ both exclusionary and positive ESG integration.

One large question Trillium considers as part of aligning our clients’ investments with their values is if it would be prudent, from both a financial and moral perspective, to avoid investing in certain industries in order to bolster their ESG investing strategy.

For Trillium’s clients who are considering divesting from Fossil Fuels and concerned about divesting from an entire industry, we typically point to a study by four Dutch Economists at the University of Groginen. The study was conducted covering a period of 88-years, from before the Great Depression to after the Great Recession, and concluded that “divestment [from fossil fuels] did not reduce risk adjusted returns…these findings can be explained by the fact that fossil fuel company portfolios do not generate above-market performance and provide relatively limited diversification benefits.”

For the companies which do make it into Trillium’s portfolios, we use our client’s power as owners to press them to change their environmental and social practices for the better through shareholder advocacy and corporate engagement. Large public pensions, such as CalPERS and CalSTRS, have already demonstrated how powerful their voices can be when joining or leading corporate engagements. And while some investors view divestment and engagement as an “either/or” proposition, we view the pressure created by divestment as a helpful piece of effective engagement.

The myriad of ESG research, new ERISA guidelines, and the decisions by New York City pension funds to divest from fossil fuels and direct investments in private prisons, lay the groundwork for the next stage of ESG investing. I am very pleased that the committees are working to understand the different ways to align a portfolio with your values, and hope this information is helpful to create a clearer path forward.

Thank you.

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[1] Gunnar Friede, Timo Busch & Alexander Bassen (2015) ESG and financial performance: aggregated evidence from more than 2000 empirical studies, Journal of Sustainable Finance & Investment, 5:4, 210-233, DOI: 10.1080/20430795.2015.1118917

[2] Trinks, Pieter Jan; Scholtens, Lambertus; Mulder, Machiel; Dam, Lammertjan: “Divesting Fossil Fuels: The Implications for Investment Portfolios”. University of Groningen. 2017