Transcription details:

Host:	Bill Coppel, First Clearing Chief Client Growth Officer
Guest:	Jeff Gitterman, Co-founding Partner of Gitterman Wealth Management

Transcription results:

Intro	Welcome to The Next Frontier, where we examine what the role of the financial advisor will be in a world where we're living longer, more tech-reliant, and bombarded with information 24/7. As we navigate constant uncertainty and accelerating change. Our mission is to spark new conversations that explore the future of advice by rethinking the value we deliver. Join us as we look at the evolving advice business and explore the opportunities that lie ahead for an industry in transition. It's time for a new conversation. Are you ready to weigh in?
BILL COPPEL	Hi, this is Bill Coppel, and welcome to The Next Frontier. Like so many industries, we continue to do things the way we've always done them until that's no longer sustainable and we're forced to change. When COVID hit, medicine was forced to change, education was forced to change, and broadly speaking, corporate America's traditional model of going to the office every day had to change. Ultimately, we're rethinking every aspect of our lives and businesses, and we're doing it at an accelerated pace. All of this has caused the heightened levels of uncertainty, but it's also brought a new sense of conviction. And what we're seeing is that in many cases, investors, in particular, are looking to align their portfolios with this newfound dedication to their principles. What's interesting about the notion of responsible investing, or aligning your investment portfolio with what you believe in, is that we're beginning to see that become increasingly important in corporate America. The Business Roundtable has listed protecting the environment as one of the five commitments in its statement of corporate purpose. And we've seen large asset management firms like Goldman Sachs begin to look closely at the way corporate boards are behaving and planning for the future relative to climate change. So with the growing number of investment concepts and products catering to this sector, how can advisors be prepared to help clients align their portfolios with their values? That's what our guest, Jeff Gitterman, is here to help us explore. Jeff is a co-founding partner of Gitterman Wealth Management and a leader in the field of sustainable, ESG, and impact investing. Noted as an ESG expert by Financial Advisor magazine, he's been featured in numerous publications and speaks frequently at industry events. He co-hosts the Impact TV Show, which airs on Bloomberg TV, is the author of Beyond Success: Redefining the Meaning of Prosperity, and served as associate producer on the feature documentary film Planetary. Over the past few years, Jeff's firm has hosted sustainable investing conferences, including the 2019 Family Office Impact Summit at the United Nations headquarters. Jeff believes that the migration of investor capital toward sustainable, ESG, and impact investing is one of the most effective ways to help realize the UN-supported sustainable development goals. And he is committed to helping investors and financial professionals navigate this rapidly growing landscape. Jeff, welcome to The Next Frontier.
JEFF GITTERMAN	Thank you so much for having me on, Bill. Really appreciate it.
BILL COPPEL	We appreciate having you. So, Jeff, let me start here. You've been a wealth manager for a number of years, but you haven't always been focused on ESG – environmental,

social, governance investing. When did ESG become important to you, and what has your experience been in the space?

JEFF GITTERMAN Well, in 2014, I got introduced to a couple of people making a film called Planetary, and Bill McKibben and Paul Hawken and a group of astronauts was that group of people. And it was my first introduction to climate change and really what was going on in the world, not that I had certainly heard about it or read some stuff about it, but this was my first deep dive into people that had a much higher perspective on the situation than I had. And certainly, speaking to an astronaut and hearing his perception of things going on on the planet from the highest view that you could possibly have was hard to dismiss. So it set me on a course of just reading everything I could get my hands on about climate change and the intersection with the capital markets and the impact that it could have and talking to people and just interviewing people. And that was my quick initiation into this side of the market. And even at that point in 2014, things were very quiet. I got a lot of patting on the shoulders when I said I was interested in ESG as a way to filter your investment decisions and a lot of nodding of heads and chuckles. And I've gotten to experience, as you know, that the last six years has been a real vertical trajectory for ESG social issues and climate risk starting to be addressed, culminating really strongly in the end of 2020, with BlackRock announcing that Aladdin would now have risk metrics on transition risk and physical risk for climate change, and Moody's announcing ratings specifically designated for climate risk. So it's been a huge change. It's one of those-- you're an overnight success after 25 years of struggling. That's how I look at ESG, in a way.

BILL COPPEL Yeah, it's very interesting, Jeff, as you mention it, because, again, 2014, the concept people were beginning to think about the environment, and it's always been a topic of conversation all the way back to Al Gore after he gave up on taking credit for the Internet, went after the environment. But there seems to be a lot of misunderstanding about the investing style that can be both profitable and reflect the specific social values one might have. And what I'm talking about here is, in addition to ESG, there's SRI, socially responsible investing, and impact investing. And these terms are often used interchangeably, but there are distinctions and differences, I assume. So can you help our listeners by demystifying what we're talking about here and perhaps reflect on how these various things like ESG, SRI, and impact are defined?

JEFF GITTERMAN For sure. Yeah, we use this metaphor that ESG is the GPS of investing. And what we mean by that is 25, 30 years ago, if you wanted to take a road trip, you had a thing that we called a map crumpled up in your glove compartment back then. And you would pull it out and look at this very one dimensional, stale data source for the future trip that you're about to take. And if you were in my house, your father would pull out the most dangerous weapon in the house, which was a compass which no one really sees anymore. But it was the sharpest tool, for sure, in our house. And he would draw a circle and say, "Okay, we have a weekend trip. We could go this far. Where do you want to go?" But it wouldn't tell you anything about road closures or police hiding in the bushes or traffic detours. And we'd run into all of those things, which was part of our weekend journey. But in your investment life, having insight into all of these bumps in the road is critical, and ESG is a data set at its best. And it's really nothing more than that. ESG is just data around environmental, social, and governance issues. Some we've been looking at for years, others-- which we just didn't have the ability to capture because of limitations to big data and being able to compile billions of bits of data into usable sources. But now that data is available, just like in a GPS, and it kind of like the idea of not using ESG would be akin to saying, "You know what? I'm going to drive from New York to Florida, and I'm going to old school it and pull out the map from the glove compartment. And I'm not going to use my GPS, and I'm going to see how long the trip takes and how many roadblocks I hit-- road closures and traffic." It just doesn't make sense at all. And people have this idea that ESG is SRI. And a lot of investors got burned by SRI during the 80s, 90s—when cutting out tobacco or big oil and having those sectors perform really well. ESG doesn't exclude anything. ESG is just data.

JEFF GITTERMAN And just like in your GPS, where once you've put in your destination, you can add in route preferences. You could put in "no toll roads" or "shortest route" or "scenic route." That's what we compare to socially responsible investing. Those are personal values that you eschew or add on top of the data that's available to you, not in place of the data. It's not the same as the data. It's specific exclusions that you as the end investor want to represent in your investment journey. And that's particular to each person. But that is not ESG. ESG includes fossil fuel investing. It includes tobacco, but it looks for the best value in those sectors based on the metrics that ESG provides. And there are firms like SASB and GRI that provide materiality maps.

JEFF GITTERMAN And what that means is that what of all these billions of bits of data that's coming in around these environmental, social, and governance issues is actually material to stock price. So that ESG is not just a wannabe tool, but it's a precision tool that actually helps look for value creation in companies within sectors. Then you have your socially responsible investing, which is your route preferences in your GPS. And then last, you have your destination. And we call the destination impact investing because the destination is intentional and measurable. You know 100% if you've reached your destination. You're not unsure at the end of the trip if you're there or not. You know if you're there. And it was intentional that you put it in. And that's impact investing. It's the intention to use your capital for some kind of good in the world. And the last example I'll give is that we kind of also mistake impact and philanthropy. And a lot of people say, "Well, impact should be done with philanthropy." And what I like to explain is philanthropy is like giving someone a fish, and impact investing is teaching someone to fish. It's looking for the actual problem and trying to solve the problem long term in a way that's profitable to people investing.

BILL COPPEL What's interesting, Jeff, when you position ESG exactly the way you did as a GPS, it's almost as if, gosh, why would you ever think of investing in something without looking at that data because your analogy of a road trip in an automobile is a terrific one. But today, we live in a digital world. Change happens so rapidly. If you're not paying attention, it isn't simply getting lost or taking longer, but it could be devastating. Right. It could be an incredible impact on your portfolio. What do you say to those who might be concerned about sacrificing returns for what could be viewed as altruistic investing?

JEFF GITTERMAN So, again, that's responsible investing and impact, so the argument is misplaced. And if you watch carefully for people that deride ESG investing based on that argument, they're deriding it with the opinion that ESG is socially responsible investing or impact. ESG, as I stated before, is really nothing of the sort. So the question is almost misplaced. The question could be, should you do socially responsible investing and be giving up alpha potentially? And that risk has to be acknowledged. There is the potential that if you ignore complete sectors of the market, that it can have a detrimental effect on your portfolio. Jeremy Grantham, though, did some great work at GMO and showed that you can pull out any sector of the market over a 20-year period, and the only detrimental impact it could have, one way or the other, positive or negative, is about 50 basis points. And he did that was fossil fuel investing and then he pulled out of tobacco investing. So there's been very little evidence that long term if you pull out a sector of the market, but if you pull out eight sectors of the market, there's definitely going to be a detrimental effect. Now, I'll take the other side of the argument too. There's a lot of people saying that there's alpha in ESG investing, but the way that they're saying that is they're looking at passive benchmarks that are designed to use ESG data scoring and filter out some of the worst performers and overweight some of the best performers with ESG top line scores. That's not all the data. That's one score that a data company has ventured to cull all this data into.

JEFF GITTERMAN

And I would argue that there's a big risk in saying that there's alpha there because there is always the case to be made whenever you have a scoring system that the actors that are getting bad scores will either altruistically start to improve because of the social environment that we're in. And then the companies that have been excluded from that ESG benchmark will actually start to perform better than the ones that are in there because they'll start to attract more capital and more consumer interest because of the move towards a more altruistic environment, or they move to get a higher score, or they'll learn how to game the system and figure out how to get better scores through gaming, which happens in any scoring system ever. So I think there's a big risk there. I think ESG lends itself to active management more than passive because there's huge data sets. And it's kind of like if I threw all the ingredients for a great meal at you, Bill, and said, "Go ahead. You have all the ingredients to cook a five-star meal." Would you be able to do it just because you have all the ingredients, or would it take a chef with experience to put those ingredients together in the right way? And I think ESG lends itself to active management over passive. That's one man's opinion.

BILL COPPEL

I think it's spot on. In fact, case in point, if you may have seen the article this weekend in Barron's, Walmart is quietly moving in the direction, and you talk about the scoring on companies, and it was a really interesting article about a lot of the changes that they're making internally, recognizing the importance of the environment and social and how they run the company and aligning those things. And the point of the article was by looking at this, and the consciousness that is taking place within Walmart is actually affecting its stock price in a positive way. Let me drill a little deeper on this point for our listeners, particularly for the advisors that are listening to this. I want you to emphasize again, why does ESG matter from an advisory standpoint when they're building a portfolio?

JEFF GITTERMAN

So I think a good example is Pacific Gas and Electric, PG&E. If you looked at that company as a passive ESG fund, you would have immediately held it in your portfolio because it had a really high top-line score from most of the rating providers. So most of the passive ESG funds held Pacific Gas and Electric. But if you dug into the data - and you didn't have to dig very deeply - they were self-reporting for a number of years prior to the fires in Northern California that bankrupted them, that their risk to fire was off the charts. It was by far the worst risk of any utility and not a little bit worse. It was almost off the X/Y graph, worse. So if you were an active manager and you were looking at the data, most active managers-- I think the right number's over 86% of active ESG managers avoided PG&E because of that specific risk. And that's an ESG risk that you're not going to pick up by just looking at pure financial data. And on the other end of the spectrum, you could say a lot of things about Tesla. There's arguments that could be made on all sides of the coin. But from a standpoint of the consciousness of investors in the United States and globally, to want to back a company that on the surface seems to be disrupting the fossil fuel industry and moving us more and more towards renewables, you can't find justification for Tesla's stock price anywhere in the financial metrics, but you can find customer loyalty and brand identity metrics in ESG data that will articulate that it's probably the number one brand loyalty company in the marketplace right now. People are obsessed with Tesla for many reasons. So it's and look, there's mixed things about Tesla. So I'm not arguing the Tesla is the best ESG company either, but it's just a rich data set. And we get to spend a lot of time because of our place in the industry with asset managers across the US and Europe and looking at how they're integrating ESG into the company. And what I will tell you is there's hardly a company out there right now in the asset management industry that's not beginning to integrate ESG one way or the other, either passively or actively, whether they're naming their funds that or not, or being public about that yet or not. The train has left the station. Behind the scenes, every company is following ESG data right now.

JEFF GITTERMAN So we’re there. The question is, do you understand it? Can you use it as a marketing position to convey it to clients? And are our clients there? I guess that would be the next question we could delve into.

BILL COPPEL I think that's exactly the right question. And when I stop and think about it, I can remember giving a keynote address a number of years back, and this was high on my radar along with this concept of well-being, which we'll dive into a little bit later, but the thought here is that ESG or the concepts of being environmentally conscious, socially responsible, and running your company are really going to become assets on a balance sheet of a public company. They're the non-tangible assets, if you will. But to your point, the public is beginning to recognize this, which leads me to my next question. And I want to shift gears a little bit, Jeff, and look forward now. Right. And what do you see in the future in terms of the thinking and mindset of investors, particularly given the diverse age groups that we're dealing with today? We've got five generations in the workforce, as well as the implications of big data and so forth. How do you see this beginning to affect or perhaps reshape investors' thinking and what they're looking for?

JEFF GITTERMAN There's great work by Ken Haman, the behavioral finance guy at AllianceBernstein, about this idea that as kind of as a Maslow's hierarchy of needs projection. As a person has met their basic needs, they start to evolve into someone that cares more about their purpose and place in the world. And as that, he runs it as a u-chart, as we start to go up the right side of that u-chart, the more wealth clients have, the more they tend to want to subscribe to a legacy or a fulfillment of something lasting in the world. And this then is pressured by, as we talk to family offices on a regular basis, more and more by each generation that comes. And what's interesting is we find that a lot of the Baby Boomer patriarchs and matriarchs of the families, they maybe didn't listen to the kids so much or they gave a small allocation towards ESG and sustainable investing to the kids. But the grandkids, they can't say no to the grandkids. So if you have grandchildren, I don’t, I hear it's much more difficult to say no to a grandchild than your child. And each generation seems to be much more conscious of what is going on in the world. I mean, certainly, social media's helped, Greta Thunberg and the strikes against climate have helped-- the physical effects of climate risk that we're seeing all around us have helped. So there's a succeeding pressure of each generation to want to be more sustainably focused. And the understanding that we're putting our planet at risk, or I should really say we're putting our place on the planet at risk, the planet will be fine with or without us, but that consciousness--

BILL COPPEL It'll exist, right? It'll exist.

JEFF GITTERMAN Exactly. Exactly. But the consciousness of investors in each generation seems to be more holistic, seems to have a bigger perspective, seems to be more inclusive, and then add more wealth to that person. And it drives that person more and more towards the desire to be purposeful with their money.

BILL COPPEL Well, and I think we're beginning to see that come to life. I believe it was UBS that announced last fall, and since then, several other firms have talked about the fact that they were going to make sustainable investments the preferred solution for wealth management clients. Do you see this signaling a tipping point for the industry, or is this a fad?

JEFF GITTERMAN

Yeah, I wrote an article in 2015 that ESG is finally becoming sustainable, so I really felt that ESG, in '15, had kind of left the station at that point and was just embedded as a trend that would become the biggest trend in the financial industry. And I certainly bet my financial firm on that fact. But I do see in 2020 that it has hit a tipping point as far as how many large investment companies have realized that they can't shy away from it at all. And I think the combination of 2020 with BlackRock adding climate risk tools to Aladdin, which is the number one risk tool by financial companies globally, I think it represents like 8 or 9-- no, no, I'm sorry. It represents like $60 trillion of wealth that is run through their risk tool. The fact that they've added climate risk measurements, both transition and physical risk, to that tool, and the fact that Moody's came out at the end of last year and said they're adding climate ratings to their traditional ratings metrics, we've really hit a point where there's no turning back on this. And what I like to say to advisors is that wherever you stand on climate change, there is a great repricing that's coming because once the re-insurers, which they already have, start buying physical data about climate risk and once the rating agencies and the largest asset managers start incorporating it into their risk metrics, they're going to begin to affect pricing of assets that are more susceptible to physical risk and that great repricing, which I've talked about for the last two years that was coming is upon us at this moment. I think we'll see in '21 with now the support of an administration that believes that climate risk is a threat. The fact that the Commodities Futures Trading Board, the first bipartisan commission, came out unanimously and said that we need to do carbon pricing or a carbon tax. We're at an inflection point in the market, and you can either get ahead of it while there is not a pricing disconnection on climate risk assets, or you can wait and get priced out.

BILL COPPEL

The decisions that people make in leadership roles is going to have a profound impact on the success of their organizations, and I think you're spot on. The quick example I think about-- and in identifying the insurance industry as a leading indicator of where things are going, I think is spot on. Just think of it. If you own property along the coast, as an example, you can't even get flood insurance anymore. Right? You can't. People recognize the fact that the seas are rising. It hasn't, thank God up till now, really diminished the demand for it. But on the other hand, that's a vivid example of what you're talking about.

JEFF GITTERMAN

And what I like to just add to that point always is because there's a lot of argument about when will seas rise that will actually affect physical assets. It's the extreme droughts and extreme flooding events that we're facing and the extreme fires from the droughts that are the most devastating, and even more than that, is the heat. So the fact that we're seeing record-breaking heat temperatures and it looks like 2020 will be tied for the warmest year or a close second for the warmest year on record to 2016, we're hitting a point where physical assets actually start to break down because the heat and humidity and flooding and that is where the repricing risk is coming in. I think advisors just watch the ocean and say, "Okay, I still was able to go to New Jersey, and the beach looks like the same size as it was last year. And maybe it's a little smaller than 20 years ago, but I don't see any real threat there." That's not the threat that's imminent upon us. The threat that's imminent are the worst hurricane season on record out of the Atlantic last year, the worst fire season on record last year, the worst global heat temperatures on record last year. All of those records were predicted by scientists en masse that were watching climate to occur in 2050. So we are now running 30 years ahead of some of the worst predictions around the effects of climate change. And that should be a wake-up call to anyone that has any money invested or has a care for the future generations of this planet.

BILL COPPEL — Great points, excellent points. I want to go back to something I mentioned a moment ago with you in this issue or concept of well-being. You've written a lot about it. It's a passion you have, and it's certainly a passion we have here at the Next Frontier, where we believe the role of the advisor is to help clients curate sustainable well-being. Help us understand how you view the intersection of well-being and ESG.

JEFF GITTERMAN — I always look at well-being as the peace that any one person could have inside them as really the core measurement of well-being. You could be poor and have extreme well-being. You could be rich and have no peace and well-being. So I look at that metric, and that's what I've written mostly about in the book *Beyond Success* that I wrote. A lot of the articles that I've written is how to cultivate a sense of peace within, especially in a world that is as chaotic as the one we live in. And my clients have always kind of seen that in me. I mean, I've been meditating since I'm 13. I taught meditation. I run silent retreats with people like Peter Senge, who wrote *The Fifth Discipline*. So not a very religious, spiritual, silent retreat, but just core silent retreats that help people recenter themselves. That well-being is missing from the world at the moment. And the frenetic pace that we are all trying to keep up with the endless Zoom meetings, all of this chaos that we're dealing with in the world is an expression of the fact that most of us don't feel a sense of well-being internally, and then we react to the outer world from that place of not feeling at peace and not feeling a sense of well-being. We're operating out of fear, resentment, and guilt, and just all the wrong emotions. And to me, the ability to talk to clients about ESG and sustainable investing is, at least, a meeting point where I can start to then bring up questions of deeper values and how to drive a sense of well-being, how to pass values down intergenerational to family members that a lot of times is difficult for people to do when they're dealing with significant wealth and to be able to talk to kids about ESG and sustainable investing has been a meeting point for the patriarchs and matriarchs of families to start to instill at least some values around money and the intersection of values and money to their kids. So I see it all as a coming together point that allows for deeper conversations with clients.

BILL COPPEL — I find more and more that one of the biggest challenges we have as it relates to generational wealth transfer, as you've just identified, is that the older generation is very much concerned about the values that they have and have lived that have, in part, certainly been paralleled with their success. Ensuring that those resources get transferred to the next generations appropriately, and I think this is a wonderful example of that intersection of where sustainable investing can curate in culture and help build well-being as that money moves. So thank you for that, Jeff. Clearly, ESG and sustainable investing is an important topic today as we spoke just before we started our conversation today. I've just noticed since you and I have been chatting over the last six or eight months that it's mushrooming in terms of the number of people that are embracing it and the amount of discussion that's taking place in literature and in the media within our industry. As we wrap up our conversation today, what would you say to advisors who may have reservations about it or be reluctant to venture into the space?

JEFF GITTERMAN — Well, I would say the space is happening with or without you, and there's going to be a significant amount of advisors that are beginning to use ESG and sustainable investing as a marketing mechanism for reaching new clients, and clients care one way or the other. The most important thing, and we're actually going to be doing an educational series with RIA Channel in March on how to integrate ESG into your practice. The most interesting thing to me is that ESG portfolios are now as good as any portfolio. There's no difference just because you use the ESG data to filter your funds, so you can have one portfolio. And that's all we have now. We just have one portfolio that’s ESG and sustainable. And if clients aren't interested in that, it doesn't in any way take away from me being able to present that portfolio to a client, that client. I would stand up against any portfolio in the world. So you can move in this direction. You can have portfolios that do meet the demand of clients, and you can wait for the points where clients are interested in it and then be able to talk about it. Or you could literally just use it as your core portfolio without any risk that you're taking that diminishes the returns or alpha that you should have going forward. And clients are going to care more and more and more about having the access to data and an advisor that's keeping up with the marketplace. So at the end of the day, this is really about evolving, and the marketplace is evolving. Every asset manager is evolving in this direction. We're seeing because of incidents like George Floyd and now the storming of the capital that corporations are all of a sudden making some very radical decisions that we would have never seen a couple of years ago about what they're doing with their campaign contributions and their funding and their associations based on social interest. And that's ESG at its core. And the companies that are leading there are the ones that have been doing ESG for years already, and they're now just being more public about it. But this is not going away. And you at least need to understand it and know about it to be able to talk to your clients about it.

BILL COPPEL

Well, Jeff, thank you. We appreciate that. And as you said, this is not going away. This is here to stay and this truly is likely to be the cornerstone for the future of our industry. So we appreciate you taking the time to spend with us this morning and talk a little bit about this emerging area of focus with respect to financial services. And here's my ask. I hope I can get you to come back in a few months as the new administration takes root and things begin to change. And I suspect this is going to continue to accelerate, and just love to be able to keep our finger on the pulse; get your insights.

JEFF GITTERMAN

I'd be happy to come back any time, Bill. It was a pleasure.

BILL COPPEL

Thank you. For listeners interested in learning more about Jeff's work, you can find links to his information in this episode's show description. We hope you enjoyed our conversation today. Please take a moment to subscribe to our podcast. And if you like what you've heard, please tell others about it. It helps people find us and ensures you never miss an episode. Our commitment is to continue to share industry trends, insights, and timely information with the aim of helping you build a better future for your clients and your business. Thanks for listening. And until next time, be well.

Outro

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