Great Minds

Amy Domini

'Let's use finance to make the world a better place'

Amy Domini has been involved with sustainable investing for more than three decades. She assisted with the launch of Robeco's first SI fund in 1999. Now she chairs Domini Impact Investments in the US. We talked with her about how far SI has come, the challenges that remain, how she invests, and what she would do if she were president of the world.

It's been 20 years since you were involved with the launch of Robeco's first SI fund. How much do you think has changed in sustainable investing over that time? Is it now mainstream, or still work in progress?

"It's hard to argue that SI is not now mainstream when some of the world's largest financial institutions are not only offering a product in this space, but are claiming this space as their future. On the other hand, the sustainability field has not come together to the point at which I would consider mainstreaming to be complete. For that, the data set that financial institutions rely upon needs to be universally available."

"I compare this to financial data. We get earnings figures, and we know what earnings mean; we get depreciation figures, and we know what depreciation means; we have figures for market cap, cash flows, and so on. Not everyone uses them all, and we have different systems for our own best picks, but we all have the same data to start with. Currently, we have to fill in the blanks on sustainability. Furthermore, data around the world varies; different nations have different disclosure laws, and there are different definitions about things like diversity, but these obstacles can be overcome. Until they are, I don't think we can reach complete mainstreaming."

What do you think are the main challenges regarding the full adoption of SI? We recently ran a myths series, where some people still think it costs performance. What would be your top five impediments?

"I really got my momentum during the dialog that took place globally in the 1980s over the role that corporations were playing in aiding and abetting a system of slavery through apartheid in South Africa. Divesting involved companies became a big deal, so I found myself called in to discuss the concept of using ethical criteria when making investment decisions. As a result, I felt very strongly that there were two primary barriers: performance and what I would call now confusion, particularly about what standards to apply when we use screens. These two problems still exist."

"Back then, the pushback from the audience was 'anything that limits your universe is going to hurt your performance'. These concerns have largely been dealt with, as we in the industry demonstrate that this performance 'give-up' is not real; that the introduction of these criteria leads to something extraordinary, which is the quantitative way of measuring qualitative information. We can actually measure the quality of a company's management and measure its corporate culture. For instance, if I see a company that has five product safety recalls, two community controversies, an underfunded pension account and an overpaid CEO, a picture is emerging. If their competitor doesn't have those things, a comparison emerges, and we gain advantage from the insight."

"I believe that those two impediments 'it hurts performance' and 'what do you look at?' are still there, but we have the tools to overcome them. Another impediment is that there is a school of thought that says, 'There is a better way to do this'. These people argue that charities are a better way, that governments are a better way, but I think this is an extremely naïve approach. When you consider the estimated USD 542 trillion in derivatives settlements annually versus the USD 80 trillion or so in global GDP, which one is stronger? Finance is much bigger than trade. And then consider that we have a fantastic infrastructure of instant

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communications and relationships globally with this information: Elon Musk tweets something at 3 o'clock in the morning and traders in Bangkok immediately take an action on it. It would be completely nonsensical to ignore this powerful, wonderful tool called finance to achieve goals concerning human dignity and ecological sustainability. I just think the idea that there are better ways to do it is wrong-minded."

"Fourth, there is the person who still says, 'forget about all that, I just want to make money'. It's slightly different from, although close to, the performance argument. I see this as problematic generally with the fiduciary who says: 'I cannot be confused by all these matters; I am a person of goodwill, and I care about these things, but I cannot let it interfere with my primary directive, which is to allow these people to retire in dignity'. They're making assumptions that are wrong. To retire with dignity requires more than money."

"And fifth, one emerging trend bothers me: single-issue funds. If you are only concerned about solar power, animal rights or being a vegetarian, that's a different goal from people and the planet. That's a way to make you feel good about your investments being consistent and aligned with your lifestyle; it's not about bringing about a world of universal human dignity and ecological sustainability. These single-use funds rarely succeed – the best ones have been in the green area, and that was only after they admitted that they care about people too. All the others haven't really gotten a lot of traction. I think people get the big picture; let's use finance to make the world a better place."

There has been some soul-searching in the asset management industry over this supposed 'fiduciary duty' to make a profit. What's your take on where the industry is going?

"This has always been a difficult issue. There is a school of thought that you need to get the 'best' weapons companies and the 'best' tobacco companies for your portfolios, but my own feeling is that this goes back to the right use of capitalism. I do not believe that the right use of capitalism is to disseminate a harmful product as widely and as cheaply as possible. Capitalism does disseminate food, clothing, shelter, communications, education and other comforts for humankind widely and cheaply, and that's a good thing. But when it comes to disseminating products that kill when used as intended, like a gun, I think we have to question whether this is the right use of capitalism, or whether these products should be limited to government-owned corporations."

"Most traditional investors want to invest in companies that will make money over time, and to do that, they need to do well in various market conditions. There have been market periods – certainly when the US invaded Afghanistan and Iraq – when oil and weapons were the only securities going up. That was a very bad time for responsible investment portfolios – all of them underperformed for two years. Responsible investing does introduce a bias, but then so does small-cap investing, or value investing, or any other kind of investing; eventually you return to the norm. And the norm in responsible investing is that you identify superior management teams with stronger corporate cultures producing better products. That's a good formula for success, especially for fiduciaries."

How is the growing awareness of global warming shaping the SI agenda? Do you agree with the IPCC's synopsis that it may be too late to meet the 2-degree target? Or are you more optimistic?

"From a Wall Street perspective, climate change creates an opportunity – you invest in solutions to climate change, technological solutions. We're not seeing a lot of people rushing out to plant trees, which should be the first step. Big financial service companies prefer to chase the new technologies necessary to save the world from climate change, rather than finance these low-cost solutions. Nonetheless, it opens the door to mainstream."

"After South Africa ended apartheid in 1994, and most responsible investors in the US were willing to reinvest in South Africa, there was a period of time when people talked about concern over the environment as being 'the next South Africa' for the industry. It kind of receded, but now it's come back again with strength. Done in conjunction with human rights, concern over climate change is a powerful driver of SI."

"We've seen the devastating results of climate change raise costs of flood insurance and property and casualty insurance. We had a big utility here in the US, Pacific Gas & Electric, that lost USD 2 billion in three days due to the California forest fires. These are definite indications that the acceleration to the dismantling of the planetary norms that make human life possible also hurts some companies. But concern over climate change is still not as big a motivator here in the US as it should be. We've had a real assault on science here for a couple of decades, and the result has been that there's a whole category of people who for 15 years thought they could not be re-elected for office if they acknowledged this climate change problem. There are two things I invest for – people and the planet – so clearly this is one of my personal drivers."

What about the energy transition from coal, oil and gas to renewables? The world still needs fossil fuels, so how do you view this arena?

"Over the last two years, Domini Impact Investments has moved to the explicit removal of energy sector companies from our universe. Many years ago we had a couple of fairly large oil and gas companies; then we moved to the position that natural gas was transitional, and we wouldn't have oil; then all natural gas companies started fracking, and we moved down further. Even though we could buy gas companies, we never found any that were good enough to buy using our criteria. While there's a moral argument about fossil fuels, there's also a practical argument that results from the data points that we look at with regard to human health and safety and ecological sustainability. We just couldn't find a company in those energy sectors that met what we're looking for. We've excluded coal since the start. Most economies still rely on coal, but they also still allow smoking and guns."

What are the main drivers now behind Domini Impact Investments? How were your Impact Investment Standards devised and deployed?

"We have three basic products: a bond fund, an international equity fund and a domestic equity fund. The bond fund is a marvelous setting for the caring investor, because you can have a bond that is created to build a dormitory for a college, or a new wing for a hospital in a low-income neighborhood that's situated in a downtrodden city. You are directly lending for social purpose, which allows us to make direct investments in answers to social and environmental problems. We buy a broad range from green bonds to social bonds to direct purpose investments that are useful to lifting people out of poverty, or giving them shelter, and are clear-cut impact investments."

"In our international and US equity funds, we apply the same standards in looking for companies that are above average with regards to universal human dignity and ecological sustainability. Certain obvious things come to the fore: access to capital, communications, clean water and health care, and clean air and food and shelter, access to the comforts of life. We are very keen on the access theme."

"As for the US domestic fund, in late 2018 we changed strategy.

Amy Domini

is considered to be one of the founders of sustainable investing, having embraced it in the mid-1980s when it was essentially a protest movement. In 1989, she co-founded the sustainability consulting firm KLD Research & Analytics, which a decade later would advise Robeco on the launch of its first sustainable fund, the Duurzaam Aandelen fund.

In 1990, she created the world's first sustainability index, the Domini 400 Social Index, tracking the companies which had the best records using socially responsible or other ethical criteria.

After the KLD partners separated, she founded Domini Impact Investments, which runs two equity funds along sustainability guidelines and one bond fund which is designed to channel capital to poor communities. In 2005, she was named on the Time 100 list of the world's most influential people. She was later honored by President Clinton for services to sustainable investing and philanthropy.

She is the author of 'Socially Responsible Investing: Making a Difference and Making Money' and 'The Challenges of Wealth', and co-author of 'Investing for Good', 'The Social Investment Almanac', and 'Ethical Investing'. She has also served on the board of the Church Pension Fund of the Episcopal Church in America, and the Interfaith Center on Corporate Responsibility. She is a member of the Chartered Financial Analyst Society and is the Chair of her firm.

Some 90% of the portfolio is run with a beta strategy, where social and environmental criteria are our primary factor. And for 10%, we allocated to the kind of company that is uniquely special in answering these issues of access and availability. We called this section 'thematic solutions'; we had been running a portfolio with this methodology for more than five years, so we had a strong confidence in it. And to the present day, that 10% of the portfolio has added positive alpha to the ordinary portfolio, and the whole fund has finally outperformed broad market benchmarks."

"Thematic solutions include the kind of names that would encompass new opportunities; one company partners with universities to allow a person in Nepal to get a Harvard degree by attending classes on the internet. Another company takes blood samples and reads very quickly whether you have Ebola or any one of a number of other diseases that plague hard-to-reach populations, so that rapid diagnostics can help determine actions."

"Our funds also exclude certain things. Sure, if I do a survey of my shareholders and ask how much they care about alcohol, it's not going to come across as a big exclusionary screen. But we do exclude it because it is harmful, not only for the abuser, but also to the immediate family and to other people; the innocent person who walks into the path of the drunk driver. We take this position with gambling as well – it's not only harmful to the abuser, but the family and community as well. These products we view as addictive and dangerous to larger society, and are not a good use of capitalism."

Did the Domini 400 Social Index make its mark on investing culture, particularly in the US?

"For the period of time after the end of apartheid in South Africa, it was the performance of the Domini 400 Social Index that drove the interest in this field. People could not believe that it kept outperforming! It would only outperform a little more frequently than it would underperform. But when it outperformed, it would outperform by more, and when it underperformed it did so by less, so the gap kept widening. That was worth gold on Wall Street. That index did I think carry the field to the new stage where people said there's something going on here. What was going on was the identification of strong corporate culture and solid management teams, especially in goods and services."

"But then the KLD partners separated, and the index became part of MSCI. The MSCI KLD 400 Social Index as it exists today is now very different from what I would design – for instance, it holds oil and gas. They would say that the typical responsible investor is invested in oil and gas today (*including Robeco)."

What are the challenges of measuring 'impact' (particularly financially), given the alphabet soup of definitions for what constitutes sustainable investing, from ESG to SRI? Is the focus really on the 'social', the 'responsible', or the need to still make money?

"To be in my camp, you need three components. Firstly, you need to apply social, ethical and environmental standards for what you invest in. Secondly, you need to engage with corporations, or wherever the power is, as this may be community groups, other organizations or the government itself. (That last one has been less fruitful for us here in America lately.) Finally, you need to find ways to make a direct impact, such as by making a loan to a housing unit in a distressed neighborhood. We provide the result of all our investments in the Impact Report on our website."

"One important impact of applying standards has been the surge in reporting along the Global Reporting Initiative guidelines; another has been the surge in a new breed of person called the Corporate Sustainability Officer. We as the investor are not interested in trying to drill down through the corporation and write an essay about what they're doing; my end goal is to be provided with universal data points akin to what we have in finance. I argue that the creation of these reports and sustainability officers is an impact that would not have happened without our existence. Sustainable investing made that happen; again, I refer to our Impact Report."

What about engagement? Given that you are a smaller investor with highly specific goals, how does that work at Domini?

"Engagement is best used to help define a problem. There is a problem when a building in Rana, Bangladesh collapses and more than 1,000 workers die. You don't know the complexity of what drives people to work in such a building – it takes a lot of dialog with a lot of NGOs, with corporations that are supplying from that factor, and with investors, to create a standard for sourcing garments from Bangladesh. Until we have that dialog, we can't just walk in and say we have a standard – we don't know what that standard should be. I see engagement as creating a construct within which we can have standards. Thereafter you have the capacity to say it is a well-managed facility or it isn't."

‘Fiduciary responsibility, especially in the US, needs to be more clearly tied to the whole person’

“During 2018 we engaged with 94 companies. One opportunity presented itself in Japan. In Japan, diversity historically has focused on people with physical handicaps – they haven’t focused on the kinds of things that we focus on in the West. We’ve had a letter-writing campaign for seven or eight years now to remind Japanese corporations that there are two genders, and it would be nice to see representation of both on their boards of directors and top management. And here’s where you get to the cultural side of things – Japanese companies think they should answer the mail, so they write back and say, ‘that’s very interesting’. Over the years we’ve had some successes and seen women serve on boards of directors. The ball starts moving, and that’s why we do it.”

Are you directly involved with the UN’s Sustainable Development Goals, or is there any indirect overlap with them in your work?

“We are strongly supportive of the goals. The SDGs address a great many of the issues that we look at. Our historic evaluation of ecosystems buckets the goals 6, 7, 8, 12, 13, 14 and 15, which concern environmental sustainability, climate resilience, renewable and alternative energy, sustainable materials, resource efficiency and so on. We’re fortunate that the United Nations headquarters is in New York City, where our research team is located, so we have been involved with their committees on things like sanctions and responsible banking. We have contributed an individual to many of their initiatives in order to attempt to represent what investors might be able to bring to the table. Now that the UNPRI has such widespread adoption, the UN has found financial service companies can help.”

You’ve won a considerable amount of plaudits during your long career… do you still get excited about SI today as when you started? If you were ‘president of the world’, what would you change?

“I’m still giddy about it; I think my battle has goals that I now see as urgent; these are threefold. First is the need for disclosure or transparency about corporate impact, and how they affect communities and the planet. The next thing I would ask for is putting some sand in the speed of financial transactions, as this is converting the investor into a gambler. Financial systems serving as a casino is a lousy way to run a planet. We really need to do something that slows down the speed and ease of transactions; taxing them is probably an elegant solution, but there may be other ways of slowing it down.”

“And finally, fiduciary responsibility, especially in the US, needs to be more clearly tied to the whole person. You really don’t retire in dignity based on your income. If you live in a dangerous neighborhood and you’re afraid to go out after dark, that is not retiring with dignity. If your grandson has asthma, you don’t care that you have an extra 100 dollars in your pocket due to the flourishing coal industry; you’re more interested in your grandchild’s health. The definition of fiduciary responsibility must explicitly address the whole future of retiring, not simply the pocketbook of the retiree. We need three things to happen: greater transparency as to a company’s impact on people and the planet, avoiding the corrupting of financial systems by gamblers and defining fiduciary obligation to the whole person. With this I would have seen my ultimate goal, and I would feel I can rest.”