



VALUES-ALIGNED INVESTING

By Richard Zimmerman, *Advisor* and Rocio Ortega, *Partner, Associate Advisor, WE Family Offices*

What do family values and investing have in common? Interestingly, more than one might think. Values-Aligned Investing continues to gain popularity as investors increasingly seek to align their investments with their own personal values.

WHAT IS VALUES-ALIGNED INVESTING?

Values are principles and standards of behavior that are important to an individual and/or to a family. They help guide decision-making in life and provide areas of focus and passion. Values-Aligned Investing incorporates a family's values into their overall portfolio strategy. Values-Aligned Investing utilizes traditional financial measures as well as environmental, social, and governance factors into the portfolio management process. It also places importance on both the financial return and the social and environmental impact of the portfolio.

A Values-Aligned Investment strategy can be implemented at an overall portfolio level, or in specific asset classes, depending on the availability of solutions and family preferences. Investment solutions that reflect a family's values are available in both the public and private markets, domestically and globally, and through passive or active management. Of particular appeal to many families are solutions that focus on specific areas of interest via thematic investing. For example, a family may care about education, healthcare, diversity, or clean energy and they want to make sure they are considering these factors as they select investments for their portfolio.

GROWING DEMAND FOR VALUES-ALIGNED INVESTING

There is a large and growing demand for Values-Aligned Investing in the United States. According to USSIF's *The Forum for Sustainable and Responsible Investment*, Sustainable Responsible

and Impact (SRI) assets in the U.S. rose to \$8.72 trillion in 2016, an increase of 33% from 2014.¹ USSIF reports that “more than one out of every five dollars under professional management in the United States today—22% of the \$40.3 trillion in total assets under management tracked by Cerulli Associates—is involved in SRI.”² Morgan Stanley reports that “70% of individuals are interested in sustainable investing and millennial investors are nearly 2x more likely to invest in companies or funds that target specific social or environmental outcomes. Female investors are nearly 2x as likely as male investors to consider both rate of return and positive impact when making an investment.”³

CATEGORIES OF VALUES-ALIGNED INVESTING

Three of the most common types of Values-Aligned Investments are:

- **Socially Responsible Investments (SRI):** SRI investors generally seek to minimize the negative impact of their investments, often by excluding certain kinds of companies from the portfolio - e.g., tobacco companies or defense contractors.
- **ESG Sustainable Investments:** An investment style that integrates and overlays specific environmental, social and governance (ESG) factors onto traditional financial analysis.
- **Impact Investments:** Impact investors intentionally target social and environmental outcomes. Financial returns can be either a primary or secondary objective. Such investments are often made in the private markets.

One or more of these approaches can be employed in a family’s portfolio to achieve a broadly diversified, Values-Aligned Investment strategy.

A RIGOROUS INVESTMENT PROCESS

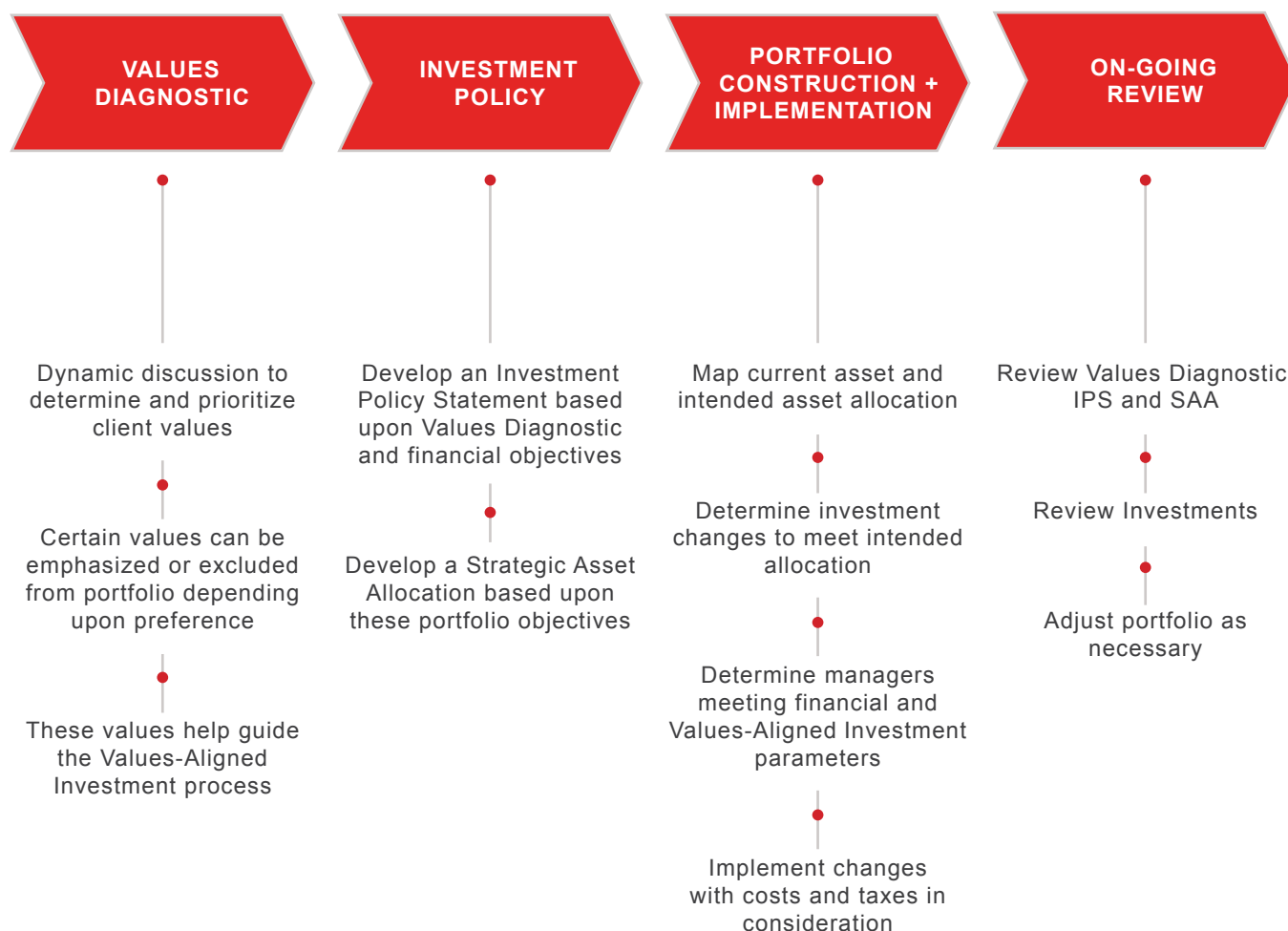
Values-Aligned Investing incorporates both financial and “impact” returns. We believe a trade-off between the two is not necessary. Families can seek to identify investments that target clear social and environmental benefits, as well as market-like returns. Moreover, a Values-Aligned Investment strategy can be analyzed with the same financial rigor as a traditional investment analysis. A Values-Aligned Investment strategy should entail a thorough review of the ESG process and the social and environmental impact of the investments, along with an in depth financial due diligence.

¹ [http://www.ussif.org/files/SIF_Trends_16_Executive_Summary\(1\).pdf](http://www.ussif.org/files/SIF_Trends_16_Executive_Summary(1).pdf)

² [http://www.ussif.org/files/SIF_Trends_16_Executive_Summary\(1\).pdf](http://www.ussif.org/files/SIF_Trends_16_Executive_Summary(1).pdf)

³ https://www.morganstanley.com/sustainableinvesting/pdf/Sustainable_Signals.pdf

VALUES-ALIGNED INVESTMENT PROCESS



The Values-Aligned Investing Process begins with the understanding of the investor's objectives and unique preferences, from both a financial and Values-Aligned standpoint. A Values Diagnostic can establish a strong foundation for a family's approach to Values-Aligned Investing. The Values Diagnostic determines areas of interest (high-value) or disinterest (low-value) for each family. This can be a dynamic process for families as they identify, prioritize, and incorporate these areas of importance into the mission of the family wealth enterprise as well as the investment portfolio.

In addition to serving as a guide for the Values-Aligned Investment portfolio, the Values Diagnostic can also help direct a family's traditional philanthropic activities as it helps identify the areas of philanthropy that matter most to the family.

Once the values are assessed, they are formulated into the Investment Policy Statement (IPS). Ideally, a family's IPS will function to incorporate both financial objectives (risk and return parameters, liquidity requirements, tax considerations, and other factors) as well as family values.

After the creation of the IPS, the process turns to portfolio construction and implementation. The same caliber of research, analysis and evaluative process can be applied to implement a Values-Aligned portfolio as to any other portfolio. A Strategic Asset Allocation (SAA) guides the portfolio construction, followed by the selection of individual investment vehicles (passive or active). Manager selection in a Values-Aligned portfolio should focus on identifying managers that meet two essential requirements:

- They have provided risk adjusted, market-like returns; and
- They have a clear and measurable process of integrating ESG and/or social and environmental impact objectives into their investment process and have the ability to clearly report these metrics to investors.

Using the process outlined here methodically integrates values-based criteria into the Investment Policy Statement, Strategic Asset Allocation, and manager and strategy selection process. Such a process yields a portfolio oriented by, and aligned with, a family's values. This new portfolio reflects a combination of factors:

- Each family's unique Values-Aligned Diagnostic;
- Each family's financial objectives and constraints; and
- The availability of viable investment solutions in the marketplace that meet all the family's requirements (financial and Values-Aligned).

The final result is an investment portfolio that is a clear reflection of a family's Values-Aligned Investment objectives.

CONCLUSION

Current trends suggest that the inclusion of a Values-Aligned Investing strategy will continue to grow in importance for wealthy families. This will increasingly become a meaningful part of the conversation between families and wealth managers. The incorporation of a family's values into their investment strategy can be an impactful experience that can more closely connect and engage family members with their overall wealth enterprise.



|| ABOUT WE FAMILY OFFICES

With offices in New York and Miami, WE Family Offices is an award-winning independent, family-focused wealth management firm, serving ultra-high net worth clients. The firm addresses the real-life challenges that deeply impact wealth so that clients are able to make the critical decisions necessary to manage, preserve and grow their wealth. WE is an independent advisory firm and has no interest in selling products, meaning there are no hidden sales agendas or conflicts of interest. As a result, the firm's advisors are free to offer their clients independent advice and serve as their advocate for the long-term, focused only on their best interests. WE Family Offices was most recently named Multi-Family Office Team of the Year by Family Wealth Report, and was listed among the Financial Times' Top 300 Independent Advisors in the United States in 2017. WE currently works with 70 families in the U.S. and abroad. Learn more at www.wefamilyoffices.com.

ABOUT THE AUTHORS

Richard Zimmerman, *Advisor*

Richard Zimmerman has more than two decades of experience working with wealthy families. He is currently an advisor at WE Family Offices, where he works with client families to provide advice and oversight regarding their overall wealth management needs. Richard also has a passion for and expertise in sustainable and impact investing and philanthropy.

Prior to WE Family Offices, Richard served in private client relationship roles at HSBC and Bessemer Trust and held leadership positions at Bank of America Private Bank and J.P. Morgan Private Bank.

Richard has a M.S. in Sustainability Management from Columbia University and a B.A. from University of Virginia. He holds a Sustainable Investment Professional Certification (SIPC) with the John Molson School of Business as well as numerous financial industry designations.

Richard serves on the Ceres President's Council, Riverkeeper Advisory Board, and Capital Institute Board.

Rocio Ortega, *Partner, Associate Advisor*

Rocio Ortega has worked in the wealth management industry for over a decade. Rocio joined WE Family Offices in 2014, and currently serves as a Partner and Associate Advisor. In this role, Rocio works with international, as well as domestic, client families providing guidance and advice around their wealth management needs. Rocio has also developed an expertise for values-aligned

and impact investing.

Prior to joining WE Family Offices, Rocio worked with Citi Private Bank as an Associate Banker covering Ultra High Net Worth Individuals and Families in Peru and Venezuela. Prior to Citi, she spent 7 years with JPMorgan Private Bank as a Relationship Officer covering Argentina, Chile, Uruguay, and Paraguay.

Rocio received her BBA from Baylor University with a dual degree in Economics and International Business.