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# Re-Energized by Sustainability

## A shift to ESG helped Jeff Gitterman rediscover his passion for the profession.

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A few days after the United States pulled out of the Paris climate accords in June, Jeff Gitterman wasn't showing signs of concern, a surprising reaction from someone who recently pivoted his financial advisory firm to embrace environmental, sustainability, and governance, or ESG, investing. The news, he says, would do little to derail the efforts of corporations to curb carbon emissions and mitigate the effects of climate change, and investors weren't backing away from supporting those companies either.

"The momentum for ESG isn't slowing," he says. "Companies are committed to climate change solutions because they understand the situation, and they're doing something about it, not because of Paris."

Yes, he concedes, it would mean a diminished role for U.S. leadership on the issue. But the other impact will be to inspire investors eager to make their voices heard on the issue. "Years from now, there will be a statue of Trump in Central Park with the inscription, 'He saved the world, even though he didn't want to,'" Gitterman says.

If true, Gitterman, cofounder of Gitterman Wealth Management of Edison, N.J., with $450 million in assets under management, is in good position to benefit. The firm has been helping academics manage their retirement nest eggs since the early 1990s, and Gitterman's new ESG push is a message that is resonating with the clients.

**Sold on Performance**

In April 2016, the firm introduced two model portfolios and separately managed accounts based on ESG factors. Gitterman named them the SMART Portfolios, for Sustainability Metrics Applied to Risk Tolerance. and they have found a following. Shortly after Trump's climate accords announcement, the firm converted $20 million of its clients' assets into those strategies.

Investors are drawn to the mission of ESG, but it wouldn't mean much if the performance didn't back it up. According to a 2012 analysis by Deutsche Bank, the ESG argument has legs. The bank examined 100 studies of sustainable investing. It found that in 85% of the studies, companies with high ESG ratings had accounting-based outperformance. In 89% of the studies, ESG companies also saw market-based outperformance. Studies since have found similar results. Companies that do right by their customers, workers, suppliers, and the environment are better managed and, therefore, achieve better financial results.

Take workplace conditions, for example. A company might be able to squeeze out a few dollars here and there by skimping on wages and benefits or demanding grueling work hours. But that will ultimately backfire with employee attrition. "Millennials are not loyal to their employers the way that baby boomers were," Gitterman says. "If they're not in a company where they're feeling valued, they'll leave. If you want to retain employees and be sustainable, you must pay attention to how you treat your workers."

The reason? Nonfinancial factors count for a lot. According to the research firm Ocean Tomo, 87% of the share price of the average S&P 500 stock is attributed to intangible assets. In 1975, just 17% were. These include customer loyalty, brand identity, and reliability, all things that don't show up on a balance sheet. For example, Tesla TSLA, the electric carmaker, has a market cap of $62 billion. General Motors GM, despite the fact that its revenue leaves Tesla on the side of the road, is worth $52 billion. "There's nothing on the balance sheet to justify the stock price," Gitterman says. "But investors want to be part of the Tesla story."

One out of every $5 under professional management carries an ESG label, according to US SIF. And the investing style is especially popular with millennials. Research from Schroders finds that ESG is significantly more important to millennials than to older investors. As the generation stands to inherit some $30 trillion over the next 30 years, ESG will be an important service area for financial advisors, Gitterman says.

"The mutual funds get it; the investors get it," he says. "Now, we just need the advisors to get it."

**Blending Personal Passion and Work**

ESG is the latest iteration of social investing. But it's different, Gitterman says. Socially responsible investing is exclusionary. Investors seek to avoid certain industries and practices. ESG, on the other hand, incorporates data that's relevant to a company's share price.

As a meditation teacher, associate producer of the documentary film *Planetary*, and author of the book *Beyond Success: Redefining the Meaning of Prosperity*, Gitterman says that he'd been thinking about his higher purpose. His outside projects were important in that quest, but his work life as an advisor wasn't bringing the same sense of fulfillment—until he realized that ESG could blend the two.

In March 2016, Morningstar introduced the Sustainability Rating, making it possible to analyze funds through an ESG filter. That gave Gitterman the tools to take ESG to the portfolio level. Just 14% of the firm's assets are invested in the ESG models and separately managed accounts. But Gitterman believes that more will follow in coming years. The style isn't a hard sell to the firm's core clientele of teachers, a market that Gitterman has served since early in his career.

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**Jeff Gitterman**, cofounding partner, Gitterman Wealth Management.

**How he caught our eye:** Runs ESG-focused practice for academics.

**Career path:** Began his financial career at Merrill Lynch with a summer job between his junior and senior years of college. Has specialized in financial, wealth, and distribution planning for the academic community since 1991. In 1997, he cofounded Gitterman Wealth Management with partner Elias Rauch. In 2010, the firm went independent, becoming a Registered Investment Advisor.

**Personal:** Father of four children. Interests include travel, meditation, writing, and wine. He is the author of *Beyond Success: Redefining the Meaning of Prosperity*. He is very active in fundraising to provide help for autistic children. Served as chairman of the Autism Center Advisory Board for the New Jersey Medical School. Also serves on the board of the Child Health Institute of New Jersey at Rutgers Robert Wood Johnson Medical School and on the advisory board to the Master of Science in Human Resources at Columbia University.

**Favorite fund families:** Saturna, Pax, Calvert, Domini, and Green Century.

The firm serves about 5,000 college professors and staff, a market that has been highly profitable. In New Jersey, professors working for the state colleges and universities must defer 8% of their salaries and the state adds another 5%. "By the time they retire, they're shocked to find out they have millions," he says.

**A Diversified Portfolio Now Possible**

To build the ESG portfolios, the firm starts by identifying a universe of highly rated mutual funds and exchange-traded funds that score well on ESG factors. Then, Gitterman screens for additional parameters. The results are two portfolios with 11 funds each, spread out among various market caps, stocks, bonds, and international holdings.

The portfolios are monitored daily to ensure that they are complying with the ESG standards that earned them a place in the portfolio. Since inception, six funds have been replaced, including one where the firm determined that the screenings weren't as strict as it wanted them to be. "We felt that the corporate governance in the fund was questionable, even though the performance was phenomenal," Gitterman says.

Clients with less than $1 million in assets are put into two model portfolios, one that's ESG only and another that's a fossil-fuel-free version. Investors with bigger accounts have access to the separately managed accounts, which allow for clients to include other personal preferences, such as emphasizing companies with high proportions of women on their boards or companies focused on climate change.

As he's talked about the SMART portfolios at industry conferences, other advisors have asked how they can follow Gitterman's example. The firm now licenses the portfolios to advisors whose clients want an ESG option.

With ESG, Gitterman has found a way to identify sustainable investments that will be viable in years to come; it's also done the same for his practice. M

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