

Testimony to Boston City Council  
By Lisa Hayles, Principal Boston Common Asset Management,  
February 28<sup>th</sup> 2019

Good afternoon,

Thank you councilors for the opportunity to appear at this hearing today. My name is Lisa Hayles and I am a principal at Boston Common Asset Management a globally-focused sustainable investment firm managing \$2.4 billion in assets for institutions and individuals.

We are dedicated to generating competitive financial returns and meaningful improvements in corporate performance through the integration of environmental, social and governance (ESG) issues throughout our investment process. Like our peers, the other sustainable investment firms here today, we also exclude some industries which we consider socially harmful from our portfolios.

Today a broad push for greater transparency has made it easier to understand what companies are doing and where they may be falling short when it comes to the environment, social and governance issues. Markets depend on transparency – as information can move markets. If the information that investors receive is shallow and short-term then the investment decisions that they make are also likely to be shallow and short-term. Short-term thinking by investors and companies has led to negative externalities such as carbon pollution, which has begun to threaten entire species and the world our children will inherit.

We believe finance must play an integral role in sustainable growth. This means combining rigorous financial analysis with the integration of ESG factors to build portfolios of companies oriented towards the long-term for our clients. This is the only way to ensure a viable economy, a healthy planet and genuine prosperity.

Our position is entirely consistent with our responsibilities as shareholders and fiduciaries on behalf of our clients' assets.

### **Sustainability Matters to Investment Performance**

In the past 25 years, investor interest in environmental, social and governance (ESG) data has grown alongside the evidence that responsible investments perform just as well as

traditional investments and can also address important sustainability concerns. <sup>1</sup> Though many studies have documented that ESG considerations can impact the financial performance of companies, <sup>2</sup> one doesn't need to be an investor to understand the enormous impact ESG issues can have on company performance – whether for good or for ill. On the positive side, interest in sustainable products and services have skyrocketed in the last few years, from the growth in electrical vehicles sales to demand for organic food and natural beauty products. On the flip side, shareholders have suffered substantial losses as a result of negative environmental, social or governance events - an oil spill or product recall can dent a company's reputation and sales and therefore its profits.

### **Demand for sustainable investments are growing**

The Principles for Responsible Investment, a global network founded in 2006 that encourages investors to collaborate on responsible investment practices, now has more than 2000 investors - pension funds, investment managers and advisors as members working together to use the market to influence companies to take ESG issues into consideration. In the United States, a recent report estimates that 1 out of every \$4 under management incorporates ESG considerations. <sup>3</sup> This is NOT a niche investment approach.

### **What are Boston's peers doing?**

A number of municipalities and state governments are adopting ESG policies and seeking improved disclosure from the companies that they invest in because they believe ESG information is financially material to investment performance.

A number of states and municipalities have taken the decision to divest from two of the highest profile private prison companies - CoreCivic and GeoGroup including New York State's pension plan, the New Jersey Pension Fund and the Chicago Teachers Pension Fund & The California State Teachers Retirement System (CalSTRS)

**Chicago** is the first large city in the world to run 100 percent of its treasury's corporate investments through an environmental, social and governance filter.

The **New York State Common Fund** has developed an ESG Strategy which includes a rigorous assessment of the materiality of ESG issues to the fund's investments

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<sup>1</sup> 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

<sup>2</sup> See for example [The PM's Guide to the ESG Revolution. From an Article of Faith to mainstream investment tool.](#) (2017) Goldman Sachs

[The Impact of Corporate Sustainability on organizational process and performance](#) HBR November, 2011

<sup>3</sup> USSIF Trends report 2018 [https://www.ussif.org/files/2018%20\\_Trends\\_OnePager\\_Overview\(2\).pdf](https://www.ussif.org/files/2018%20_Trends_OnePager_Overview(2).pdf)

**New York City** has announced it will divest its pension funds from companies which own fossil fuel reserves by 2022.

And of course there are numerous cities which have considered divestment from specific sectors – e.g., Sudan, fossil fuels, gun manufacturers, and private prisons.

### **In Conclusion...**

**The City of Boston has an opportunity to be a leader in adopting a framework that integrates ESG considerations around their investable assets. The City's own environmental policy asserts: *'We want to build a more sustainable, resilient, and healthier city now and for future generations of Bostonians.'***

Consistent with that policy we encourage you to develop your own policy on ensuring 100% of the City's investment assets are fully integrating ESG considerations. Steps the City can consider include:

- Ensure 100% of the investment decisions on corporate securities are analyzed through ESG factors by including this requirement for all internal and external City funds
- Commitment to collaboration with other investors - become a signatory to the UN Principles for Responsible Investment and join a supportive community of investors collaborating to increase responsible behavior among corporations. Or consider joining other institutional investor groups that work together on climate and sustainability issues.
- Commit to carbon footprint your portfolio(s) and work towards a carbon neutral portfolio by 2030.

*The information in this article should not be considered a recommendation to buy or sell any security.*