

Influential Institutional Investors Are Changing The Way They Invest

10 Nov 2010

Imogen Rose-Smith

For fiduciaries like Orin Kramer, future investment is going to change; economically, socially and culturally.

Institutional Investor looks at Socially Responsible Investing:

- [Watch videos of II's Executive Editor, Mike Peltz, and reporters, Imogen Rose-Smith and Katie Gilbert.](#)
- [Read Katie Gilbert's story about SRI 2.0 – today's socially responsible investing model.](#)
- [Read Udayan Gupta's story about how environmental issues are even changing venture capital.](#)
- [Click through our slideshow of images from the Compass Conference on SRI.](#)
- [Click on the images within the text to listen to audio.](#)

Growing up in the 1960s and early '70s, Kerry Kennedy (pictured below, left) spent her summers on Cape Cod, in Hyannis Port, Massachusetts, with her many siblings and cousins at the Kennedy Compound. The three homes that make up the compound, located on six neatly manicured acres alongside Nantucket Sound, are still owned by the Kennedys, who descend on the Cape every summer. This year was no different, except that Kerry, the seventh of Robert and Ethel Kennedy's 11 children, persuaded her family to open its doors for three days to a serious cause: expanding fiduciary responsibility.

That's how a group of some 150 people — among them, 31 fiduciaries representing some of the U.S.'s largest public pension plans, including the California Public Employees' Retirement System, the Florida State Board of Administration and the North Carolina Retirement Systems, as well as corporate pension plans, sovereign wealth funds, university



endowments and foundations — found themselves invited to the Kennedy Compound in late July. Ethel Kennedy greeted the guests, who sneaked glances at the family photos that clutter almost every surface of her longtime residence and chatted with other members of the clan, including Kerry's brother Bobby Jr. and cousin Ted Jr., before wandering out onto the wooden deck. From there they made their way inside a large tent, decorated with strings of twinkling lights, where dinner, featuring New England clam chowder, was served.

James Wolfensohn (pictured right), former head of the World Bank and a longtime friend of the Kennedys, gave the keynote address. The world, the veteran investment banker told his audience, is changing fast. In 30 years as much as half of global GDP will come from India and China, he said. "And the thing is that, for those of us that live in the currently viewed rich world, this is a change of proportions that our generation has never seen before," he explained. "The change in itself is dramatic in terms of numbers, but the most dramatic change is what's going to happen in the economics. And it's not just in the economics; it's what is happening socially and intellectually in those countries." In this new world order, Wolfensohn suggested, fiduciaries will need to rethink not only where they put their money but how they invest and what they value. In short, they are going to have to focus on investing for the global good.



The evening kicked off the first RFK Compass Conference, organized by the Robert F. Kennedy Center for Justice & Human Rights, the not-for-profit organization founded in 1968 by the late Robert Kennedy's family and friends to carry on



his legacy. Kerry, president of the RFK Center, and a group of its supporters — including Orin Kramer (pictured left), a hedge fund manager and New Jersey State Investment Council board member; Marc Spilker, former co-head of Goldman Sachs Asset Management; and Robert Smith, founder and CEO of \$3 billion, San Francisco-based private equity firm Vista Equity Partners — put the conference together because they believe that issues of environmental impact, socially responsible investing and corporate governance, which commonly go by the label ESG, are more important than ever for investors.

"This is not something that is abstract," says Kerry Kennedy. "These are real issues that fiduciaries are dealing with every day." The recent economic meltdown, she says, is just one factor causing investors to step back, take a look at what they do and realize just how important ESG considerations really are.

Some might puzzle over why a human rights organization like the RFK Center cares what an institutional investor like the New Jersey state pension system does with its money, but for the center's supporters, this makes a lot of sense. "Kerry got together a group of people who were really inspired by her, and we're doing this for her and to support her work in human rights," says Kramer. Adds Spilker, "The mission of the RFK, doing social justice and human rights, is one of the truly honorable things in the world to be doing." Expanding fiduciary responsibility to include ESG factors, he says, could have a much bigger impact than any on-the-ground initiative that the center might undertake. "If the entire investment landscape

changes by one small little fraction, the impact could be on hundreds of millions of people,” Spilker explains.

Spilker, Kramer and Kennedy insist they are no Bambi-eyed idealists. But until recently, mainstream asset managers considered them to be exactly that. Now, however, the brain trust behind the Compass Conference is among a growing number of investment professionals and thought leaders who believe that pension plans and other institutions have a fiduciary obligation to consider ESG factors when they invest. In fact, they say, consideration of such principles is critical to successful long-term asset management — an argument that has gotten a boost from recent events, including the economic meltdown, the BP oil well disaster and the Massey Energy Co. mine explosion, as well as from growing evidence of the impact of climate change and the importance of good corporate governance.



“A fiduciary with an investment vehicle like a pension fund or endowment with a long time horizon should be thinking about conditions that will affect investment returns over ten to 30 years,” says New Jersey’s Kramer.

Institutional investors have historically not considered ESG factors to be important; most believed looking at these issues to be at odds with what they did. Traditionally, the most common way to approach ESG factors has been through so-called socially responsible investing, or SRI. In its earliest form, SRI consisted of screening out “bad” securities, like the stocks of tobacco makers or companies that manufactured land mines. For many of the pioneers of Modern Portfolio Theory — an investment approach, favored by institutions, that emphasizes diversification — such screening was foolhardy.

“It is hard to do well by doing good when you shrink your opportunity set,” says Mark Anson, a former CIO of CalPERS. “In fact, mathematically you are wrong.”

A rain forest of academic literature published on SRI indicated that, at best, screening had no impact on returns. Many continued to believe, sometimes with good reason, that socially responsible funds underperformed the market. As a result, SRI was relegated to a group of values-driven investors — religious organizations, hospitals and the like. Without role models among mainstream investors, public pension funds in particular were reluctant to consider what in the past half dozen years came to be termed ESG.

Socially responsible investing was also dogged by an all-or-nothing attitude. “There was this sense that you couldn’t be a little bit pregnant,” says Lyn Hutton, CIO of Wilton, Connecticut-based Commonfund, which manages \$25 billion in foundation and endowment assets. This led many institutions to throw up their hands. “A lot of investors got stuck in these abstract conversations,” says John Goldstein, co-founder of Imprint Capital Advisors in San Francisco, one of the only consulting firms to focus exclusively on advising investors on ESG and other impact investments.

But as the discussion shifts from screening out bad stocks to using ESG factors to identify investment opportunities, a new pragmatism has kicked in. “Forget about winning the war, let’s just win some battles,” says Goldstein. “Getting people to fundamentally change how they think about investment management is a pretty large task. Getting them to invest in a fund with a proven track record is easier.”

Now some foundations are looking at whether to invest in the initiatives they encourage with their grant making. This so-called mission-based investing can help lay the groundwork for a broader approach. “There are some really interesting things happening, lots of community investment across the country,” says Christa Velasquez, director of social investments at the Baltimore-based Annie E. Casey Foundation, which has allocated \$125 million of its \$2.5 billion in assets to investment funds directly tied into the foundation’s objective: improving the lives of vulnerable children in the U.S.

Two years ago, Annie E. Casey was one of three foundations to support the formation of a mission-relating investing initiative at Cambridge Associates, a Boston-based consulting firm that advises more than 800 endowments, foundations and other not-for-profit institutions worldwide. And, in a major breakthrough, a handful of investment consultants are now beginning to take responsible investing seriously. It helps that a group of money managers — London-based Generation Investment Management foremost among them — is starting to prove that looking at so-called sustainability issues can be profitable.

Outside the U.S. many large investors already take ESG extremely seriously. It has been five years since the Caisse de dépôt et placement du Québec implemented its policy for responsible investing, which, put simply, pledges the \$192 billion Canadian sovereign wealth fund to incorporate ESG principles in its investment approach. “For us, the financial mission and the nonfinancial mission go hand in hand,” says Roland Lescure, Caisse’s Montreal-based CIO. “It is not a duty that we have on top of our financial responsibilities.” Responsible investing is part of Caisse’s core approach, even if the investment impact of some ESG measures is hard to quantify. “It is both a risk management and performance

enhancement tool,” Lescure says.

For Lescure, a watershed moment was the 2006 launch of the United Nations’ Principles for Responsible Investing. The PRI, which Caisse helped draft, pledges signatories to commit to socially responsible investing. To date, investors representing more than \$22 trillion in capital have signed on. “PRI has been much more successful than people expected in terms of its growth and the seriousness with which it now seems to be taken,” says Glen Saunders, a PRI board member and a former guardian of the \$11.9 billion New Zealand Superannuation Fund, which integrates ESG into its investing.

Not every PRI signatory is as committed as Caisse or the New Zealand fund. One major criticism of the initiatives is that signatories do not have to live up to the pledge or even publicly disclose what they are doing. But Vinay Nair, a former assistant finance professor at the Wharton School of the University of Pennsylvania and an adjunct professor at Columbia Business School, points out that even if only a small percentage of signatories act on their convictions, it will have a material impact on the market value of companies that those investors deem good or bad actors — what he calls the “capital flow” effect.

“Some back-of-the-envelope calculations reveal numbers that are quite striking,” Nair says. He estimates that if an additional 5 percent of the total available capital is allocated to sustainability in the equity markets over the next three years, companies that are recognized as “good” will outperform “bad” ones by 3 percentage points annually.

Nair is so excited about the opportunity that he has started a New York–based alternative investment firm, Ada Investment Management, to try to take advantage of it. In the developed markets, Ada runs a long-only equity fund and two equity hedge funds, each of which integrates ESG factors into its investment analysis. Ada also runs an internal fund without the ESG factors to track the incremental impact of these indicators. So far, after two years, the ESG funds are outperforming. “The valuation spread between sustainable and unsustainable companies will continue to widen,” says Nair.

The 2008–’09 financial crisis was a major catalyst in reigniting the ESG debate among investors. Public pension funds, sovereign wealth funds and insurance companies realized that although they had long-term horizons, many of the investment decisions they were making, and the decisions being made by the companies in which they had invested, were short term and in some cases highly risky. The behavior of the major financial institutions — their risk-taking and bonus making in particular — struck some nerves.

“The financial crisis showed investors we weren’t monitoring the things that really mattered,” says Anne Simpson, senior portfolio manager for global equities at CalPERS and an attendee at the RFK Compass Conference. “If you looked on the boards of the big banks, they checked all of the boxes for good corporate governance. But the crisis told us our reading is superficial.”

Kerry Kennedy has been struck by how many public fund fiduciaries have told her they grapple with ESG issues on a daily basis. With states facing huge fiscal shortfalls, officials at public funds “are under pressure to use their resources for the public interest — for instance, funding inner-city real estate developments,” she explains. “Because even though their pension pot of money is much smaller than it used to be, it is still the largest pot of money in the state.”

But if a single factor has forced fiduciaries to take ESG matters seriously, it is climate change. “Global warming is an unequivocal and unassailable scientific fact,” says Deutsche Asset Management global head Kevin Parker. “You have to be willfully obtuse to disagree with the fundamental laws of thermodynamics. The only question is, how much carbon can the atmosphere tolerate?”

Institutional investors aren’t waiting for an answer. In November 2009 some 20 of them, including CalPERS and the California State Teachers’ Retirement System (CalSTRS), as well as the state treasurers of Connecticut, Florida, Maryland, North Carolina, Oregon and Vermont, sent a letter and petition to the Securities and Exchange Commission contending that climate change had become a material risk and requesting commission guidance on what companies needed to disclose about it. Just two months later the SEC issued a groundbreaking decision: For certain companies, climate change is material and should be disclosed. The “E” in ESG had officially become an on-balance-sheet risk. But institutional investors, as Kennedy and others argue, ignore the “G” and even the “S” at their peril.

“If you decide not to look at ESG issues, then you are deciding not to look at areas of risk,” says CalPERS’s Simpson.

In 2001, Hawaii came the closest of any U.S. state to creating a completely socially responsible public pension fund — but that was not very close at all. That year the Hawaii legislature introduced bills proposing that the state’s then-\$9.5 billion employees’ retirement fund use SRI screens across its entire investment portfolio. The plan, according to people involved,

was opposed by the retirement fund staff and their advisers, and at the end of the year a legislature-commissioned report strongly advised against any kind of SRI screening or shareholder activism. “Mandating institutions, particularly public or quasipublic retirement trust funds, to adopt SRI strategies would be a radical act,” the report said, concluding that there was little to no economic benefit to an SRI approach.

Hawaii’s experience highlights the limited way socially responsible investing — the term “ESG” had not yet been coined — was mostly viewed and practiced at the time. Though the concept goes back centuries, socially responsible investing really started in the U.S. and elsewhere with institutions that wanted to avoid certain stocks for religious reasons. By the 1960s, spurred in part by reaction to the Vietnam War, it had grown to include investors making values-based choices. For example, opponents of the war asked investors to dump shares of Dow Chemical Co., the maker of napalm.

In a March 2010 research report, the investment consulting firm Callan Associates pointed to the 1985 formation of the Council of Institutional Investors — the first teaming of large institutions to take an activist approach as owners — as a milestone in responsible investing. This coincided with the move to divest from companies doing business in apartheid South Africa. A few years later universities and pension funds were also looking to divest from tobacco stocks. By 1999 there was more than \$2 trillion of SRI assets in the U.S., according to a study by Deutsche Bank. But the bulk of that money largely came from religious institutions or values-based mutual funds, not from defined benefit pension funds and rarely from large foundations and endowments.

Socially responsible investing was not anathema to these asset owners; in fact, SRI got integrated into the oversight and management process at most foundations and endowments, says Hutton, who recently announced that, after seven years as CIO, she is leaving Commonfund at the end of this month. “Once you got through the ‘South Africa free’ and the tobacco wars, the rest of the effort has been more focused on executing your policy and doing it in a way that was consistent with your institution,” she explains. But these were not investment discussions — and with good reason.

When SRI revolved around screening out stocks, it was very hard to make the case for it on economic grounds alone. In fact, the numbers argued against responsible investing. In a September 2008 report for CalPERS, consulting firm Pension Consulting Alliance estimated that the retirement fund’s South Africa divestiture program had cost the state \$1.86 billion in commissions, market impact and missed investment opportunities. The Florida State Board of Administration divested from tobacco stocks in the 1990s, when that state was engaged in suing the cigarette companies. The SBA, which oversees the state’s \$111 billion pension fund, reversed its decision a few years later, an estimated \$482 million poorer after investment losses and transaction costs.

As a result of figures like these, a whole generation of investment professionals came up through the ranks thinking of SRI as a money loser. But there were more-positive developments happening. Under the direction of then-California treasurer Phil Angelides and then-state controller Steve Westly, CalPERS and CalSTRS began looking at environmental issues and sustainable investing — not screening as much as exploring investments that could help the environment and capitalize on the global move toward a more sustainable way of living.

In November 2003, Boston-based Ceres — a nonprofit organization that acts as a platform for asset owners, institutional investors and activists interested in environmental issues — and the United Nations Fund for International Partnerships co-hosted an institutional investor summit on climate risk at U.N. headquarters in New York. At that conference, Westly announced that CalPERS and CalSTRS had been directed to figure out how to invest \$1 billion in clean-tech and sustainable companies.

Westly, who today runs Westly Group, a Menlo Park, California-based clean-tech venture capital firm, is especially proud of that proposal. “At the time, this was viewed as aggressive and potentially risky,” he says. But almost immediately following his announcement at the U.N., other states, including Connecticut, New York and North Carolina, announced clean-tech venture capital programs of their own. In February 2004, Angelides revealed his Green Wave environmental investment initiative, which included a proposed \$500 million combined commitment to clean-tech venture capital by CalSTRS and CalPERS.

“It was the beginning of a burgeoning of the asset class,” Westly continues. “The amount of venture investing that goes into clean tech is one of the largest single segments of the venture world today.”

This commitment marked a paradigm shift from institutional investors viewing SRI as a negative screening tool to organizations using it to identify investment opportunities. Says Anson, who was CIO of CalPERS at the time and is now managing partner and chairman of the investment committee at \$12 billion Menlo Park-based Oak Hill Investment Management: “The question became, How do I find the long-term drivers that have a beneficial or positive impact on

performance? That is a much more enlightened way to look at responsible investing. It is consistent with Modern Portfolio Theory.”

At the same time that CalPERS and CalSTRS made their clean-tech commitments, each allocated \$500 million to environmentally screened equity funds, and CalPERS also created a \$5 billion corporate governance investment program. But until recently, few other U.S. fiduciaries followed their lead.

CalPERS and CalSTRS have the advantage of being based in a politically liberal state, where officials have long been enthusiastic about such initiatives. They also broadly interpret the fiduciary responsibilities of their pension plans. “Our fiduciary duty is simply that you have to deploy a degree of loyalty, you can’t use your pension to do things that are in your own interest or anyone else’s interest, and you have a duty of care,” says senior portfolio manager Simpson, who oversees CalPERS’s corporate governance program. “People over here usually call this a duty of prudence.”

Pension officials in other states have tended to worry that looking at or, worse yet, investing with an eye to ESG factors could violate their fiduciary responsibility — if that is to make as much money as possible for their beneficiaries. It is this kind of misapprehension, Kerry Kennedy says, that has stopped fiduciaries from looking at ESG concerns as important risk factors.

Few fiduciaries, for example, paid attention in 2006 when a BP pipeline in Prudhoe Bay, Alaska, cracked, causing an estimated 200,000 barrels of oil to leak undetected into the winter snow. “It should have been a wake-up call,” Kennedy says. “In the wake of BP’s Gulf Coast disaster, fiduciaries realize that their shareholders cannot afford for them to fail to look at ESG factors when making investment decisions. That lack of attention to ESG has contributed to the crisis that many pension funds find themselves in today.”

While ESG stalled in the U.S., it was taking off in the rest of the world. The large Scandinavian pension plans and sovereign wealth funds, such as Norway’s Government Pension Fund, and the Netherlands’ ABP have emerged as leaders. In 2004 the Norwegian government set up ethical guidelines and an ethical council to oversee fund management; since then the Norwegian pension plan has taken stands on a whole host of issues, from the use of child labor in the cocoa industry to environmental damage.

The Caisse de dépôt et placement du Québec adopted its SRI policy in 2005 as the result of a governance review and consultation with its depositors. For Caisse CIO Lescure, socially responsible investing has economic and risk management benefits, but he acknowledges that the fund also has a social obligation to the people of Quebec.

“We do manage public money for public institutions,” he says, and with that comes an obligation to do what the public would want, including acting like a good global citizen.

In 2004, stunned by poor returns and criticism of its investments in highly polluting industries, the U.K.’s Environment Agency completely retooled its \$2.75 billion pension fund to invest along socially responsible lines. The government-sponsored agency instituted an environmental overlay across its entire pension plan, emphasizing corporate governance and shareholder activism, especially on sustainability issues. Under the new regime, fund performance has improved. Although the plan, like its peers, lost money during the 2008 market meltdown, it was up 40.9 percent for its fiscal year ended March 31, 2010. Its top equity manager was U.K.-based Generation Investment Management, which was founded in 2004 by onetime Goldman Sachs Asset Management CEO David Blood and former U.S. vice president Al Gore to practice sustainable investing. Generation returned 54.1 percent during the period, beating its benchmark by more than 10 percentage points.



The success of the Environment Agency and others suggests that institutional investors can do better by doing well. As the economic evidence grows, U.S. funds are starting to look at ESG factors seriously. For someone like Kramer, who joined the board of the New Jersey State Investment Council in 2002 and fought furiously to move the now \$70.2 billion state pension fund into alternatives because he believes in the benefits of diversification, incorporating ESG is not a violation of modern investment management; it is an important part of the process.

“In theory, stock prices are the discounted value of future cash streams,” explains Kramer, who launched his New York-based hedge fund, Boston Provident Partners, in 1992. “So by definition, corporate practices which aren’t sustainable will ultimately affect stock prices.”

On January 12, 2009, her first full day as North Carolina treasurer, Janet Cowell had an unpleasant task: to announce a 20 percent drop in the assets of the state’s \$67 billion pension fund. Worse, because of budgetary pressures, the North

Carolina General Assembly had to make the difficult decision not to fully fund the teachers' and state employees' retirement plans in 2010. In the face of such challenges, Cowell and her small pension staff decided that one of the ways they could maximize the value of the fund for beneficiaries and North Carolina taxpayers was to incorporate ESG into the state's investments — but they had to do it carefully.

“In North Carolina there is very clear accountability and responsibility toward the beneficiaries,” says Cowell, a former financial analyst. “As a constitutional officer, I clearly have to link any action I take to its ultimate benefit to shareholders. That includes trying to recover monetary value if there has been malfeasance.”

Take Massey Energy. For several years, the Richmond, Virginia–based coal mining company resisted an institutional-investor-sponsored shareholder resolution requesting that it develop and disclose a strategy for responding to climate change, even after the U.S. Supreme Court ruled in 2007 that carbon dioxide, which is produced when coal is burned, is a pollutant under the Clean Air Act. The investors, which included North Carolina, were also concerned about Massey's safety record and the makeup of its board. They objected to the fact that one person, Don Blankenship, held both the chairman and CEO positions, and contended that the board was not taking sufficient steps to uphold shareholder interests, especially in areas like health and safety issues.

Those issues came back to haunt Massey on April 5 of this year, when an explosion at its mine in Raleigh County, West Virginia, killed 29 miners. In the public outcry that followed, North Carolina's Cowell was one of the leading voices pushing for reform. She and other institutional investors asked shareholders to withdraw support from the three directors with direct oversight of health and safety, but although the explosion occurred just weeks before the annual shareholder meeting, all three board members narrowly won reelection. A shareholder request, submitted by the New York City Employees' Retirement System, that Massey separate the CEO and chairman positions also failed.

Dan Bakal, director of the electric power program at Ceres, which helped organize the institutional investors, says that even though they lost the votes, their fight against Massey is forcing other companies in the sector to act responsibly: “No one wants to be Massey.” In addition, he says, some banks are less willing to lend to the company.

For Cowell too, the fight has been worthwhile. “We felt like a team working together, and we are moving in tandem and building some relationships,” she says. “That is a better approach than to try and go out on your own.”

Massey recently made progress on the corporate governance front. At a special meeting on October 6, shareholders approved a package of reforms. No longer is a supermajority of shareholders required to amend the company's bylaws; a simple majority will do. In addition, board members will stand annually for reelection. Shareholders applauded the changes, sending Massey's share price soaring by more than 30 percent over the next three weeks.

As institutional investors put more dollars into emerging markets and companies start doing more business there, the need to incorporate ESG factors into the investment equation becomes increasingly pressing and difficult. “Like it or not, we are involved in emerging markets,” says Caisse de dépôt et placement du Québec CIO Lescure, whose fund currently invests roughly \$7 billion directly in those markets. “We have to make sure we know what is going on there.”

Emerging-markets companies are unlikely to be as advanced as those in the developed world in terms of corporate governance or environmental issues, Lescure says. “We should have a relative view when evaluating them for potential investment,” he adds.

One way institutional investors are approaching ESG matters in developing economies is by talking to global companies about their supply chains. The Connecticut Retirement Plans and Trust Funds, under the direction of State Treasurer Denise Nappier, has been working with other investors to monitor how companies like Coca-Cola Co. are managing and reporting their water usage. The world's biggest soft-drink maker uses a huge amount of water, and much of its bottling is done in emerging-markets countries.

Many large public pension funds are already directly engaged with human rights issues in emerging markets. In the U.S. more than 20 states have passed laws requesting that their pension funds divest from companies doing business in Sudan, because of the atrocities being committed through genocide in its Darfur region — civil strife that came about in part because of drought-caused migration. Some other state pensions, such as the New York State Common Retirement Fund, have divested voluntarily.

Not all public funds support divestiture. CalPERS, for one, is reluctant to divest from companies with operations in Sudan; it believes more good can be done by staying at the negotiating table. Furthermore, many of the companies that do operate in the region are based in China, India or Malaysia. Often these emerging-markets companies are very resistant to

shareholder engagement. Dealing with such companies is “one of our most challenging areas, but we’re brainstorming with our members and coordinating with our investor network to achieve greater success,” says Melany Grout, director of the Conflict Risk Network, a group of institutional investors, financial services firms and other stakeholders organized by the Washington-based Genocide Intervention Network.

Human rights is by far the hardest issue for investors to justify getting involved in on purely economic grounds, especially in the developing world. “Generally, people have an easier time understanding the environmental stuff, because increasingly there are consequences there,” says RFK Center supporter Spilker. Corporate governance is also relatively easy, he adds, because there is usually an obvious link to shareholder value. But when it comes to human rights, the economic benefits are not always clear, and change can be difficult to achieve.

Kramer, however, says that just because ESG issues can be hard and complex, and their financial benefits not always quantifiable, investors should not avoid them. He rejects the notion that ESG factors are somehow more amorphous than other aspects of investing, adding that it is a fiction to believe that future return streams are predictable.

“Whether it’s the BP oil spill or subprime lending, outcomes damaging the public interest can damage beneficiaries,” he explains. “Fiduciaries also have a duty of intergenerational impartiality, which means they have to go through the subjective process of thinking through how social justice or environmental considerations can affect sustainable corporate performance and long-term investment outcomes.”

Inspired by the discussions at the RFK Center’s Compass Conference, a group of influential government officials and public pension fund executives — including CalPERS’s Simpson; North Carolina treasurer Cowell; Stanley Mavromates Jr., CIO of Massachusetts’ \$44 billion Pension Reserves Investment Trust Fund; and Pennsylvania Treasurer Rob McCord — have been discussing how they and other institutional investors can better integrate an awareness of ESG factors into what they do. They realize that asset owners, their investment staffs and board members, as well as their money managers and even consultants, need to be better educated on the topic.

At the urging of these fiduciaries, the RFK Center is in the process of putting together a series of educational sessions to be held around the U.S. In October, Kramer and Tracy Palandjian, a managing director at consulting firm Parthenon Group in Boston and one of the key organizers of the Compass Conference, flew to Chicago to meet with fiduciaries and their consultants to talk about the kind of initiatives that are needed.

For Spilker, the RFK Center’s position as a human rights organization outside the asset management and investment community enables it to act as an independent, objective mediator of these discussions. Kerry Kennedy and the center’s track record provide legitimacy, and also some useful star power that can bring attention to the cause. (Actors Mandy Patinkin, Vanessa Redgrave and Gloria Reuben attended the Compass Conference.) But it is Kramer’s presence that has really made the RFK Center’s efforts to engage fiduciaries and money managers on the issue of responsible investing successful so quickly.

Alan Buerger, CEO and co-founder of Coventry Capital, says he was not remotely interested in attending this year’s Compass Conference when he first heard about it. A Republican, Buerger was skeptical of the motives behind the gathering, but then he got a call from Kramer. “You can’t say no to Orin; he is very persuasive,” says Buerger. His Fort Washington, Pennsylvania-based firm (the leader in, of all things, the life settlement secondary market) became one of the event’s two lead sponsors. Now Buerger is a believer, talking to asset owners, including insurance firms, corporate pension funds and public funds, about the importance of ESG issues. “It’s Orin’s incredible ability to bring disparate people together, along with his clear understanding of what it means to be a good fiduciary, and his passion and intelligence about these subjects, that makes the whole project work,” Spilker says.

Still, there is plenty to be done. Although responsible investing has gained credibility in the past few years, far from every fiduciary is on board with the idea that considering ESG issues should be an important part of what they do. Even the Annie E. Casey Foundation, which has been one of the more outspoken advocates of mission-based investing, has not adopted a values-driven investment approach across its entire portfolio, as director of social investments Velasquez would like it to do. “It might take having folks like me, or my colleagues at other foundations, moving into the CIO level to bring this to the scale that it needs,” she says.

The RFK Center, for its part, is already planning next year’s conference. But Kerry Kennedy is well aware that talk, if not exactly cheap, is relatively inexpensive. She knows that a single annual meeting at her family’s sumptuous summer home each year is not going to be enough.

“If we are having the same discussions that we had at the conference this year ten years from now, then we will have failed,” Kennedy says. “But that is not my intention.”