METAPOINT

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Greetings!

ESG funds—the acronym stands for Environmental, Societal, and (corporate) Governance—have been around for a while. They attract investors who want to do good in addition to doing well financially. And since George Floyd's death this spring, and the increased interest in social justice, ESG funds have seen their assets under management climb to over $1 trillion in 2020.[1]

But does this money actually flow to socially responsible investments? If you care whether your money is being invested in companies that reflect your values, it pays to look beyond the flashy ESG label.

Returns Comparisons	7-Aug-20	1st half 2020	Bear Market 1Q 2020	Bull Market 2019
Equities				
Maya Joelson Client Average *	**23%**	**12%**	**-6%**	**31%**
Major equity benchmarks				
S&P 500	4%	-5%	-20%	29%
ISHARES ESG MSCI USA ETF**	8%	-3%	-19%	30%
Russell 2000	-6%	-16%	-31%	24%
MSCI World	0%	-8%	-21%	25%
MSCI Emerging Markets	-2%	-15%	-24%	15%
Average equity index return	***1%***	***-9%***	***-23%***	***25%***
Maya's Outperformance	**22%**	**22%**	**17%**	**6%**
Maya's average account return across all assets *	**16%**	**8%**	**-4%**	**18%**

* This is calculated as the equal-weighted average of clients who invested over $1M with Maya Joelson.
** Ishares ESG MSCI chosen to represent ESG index as it is the largest ESG fund with over $8.3 billion assets under management.
Source: ycharts.com, Orion.

All too often, it turns out, investors who want to create societal change through ESG funds are often just supporting more of the same.

Do ESG investments produce superior results?

While the ESG index excludes tobacco and weapons producers and claims it is "sector-diversified and targets high ESG ratings in each sector,"[2] the composition of the index closely resembles that of a broad exchange-traded fund, or ETF. ESG funds often do slightly outperform the index as can be seen in the chart above - but this can largely be attributed to their exclusion of the faltering oil industry and not the ability to capitalize on the strengths of diversity.

A public company named MSCI, spun out of Morgan Stanley, has become the *de facto* entity that sets the industry benchmark for ESG index and active funds. MSCI designed its index to "maximize exposure to positive environmental, social and governance (ESG) factors while exhibiting risk and return characteristics similar to those of the MSCI USA Index."[3] That sounds great on paper, but the reality is not as righteous.

But ESG funds support diversity, right?

You might expect that, but the top companies on the MSCI ESG list have long been in the spotlight for a noticeable lack of racial and gender diversity in the workplace.

TOP 10 CONSTITUENTS

	Index Wt. (%)	Parent Index Wt. (%)	Sector
MICROSOFT CORP	5.61	4.98	Info Tech
APPLE	5.27	5.29	Info Tech
AMAZON.COM	3.62	3.86	Cons Discr
ALPHABET C	1.99	1.66	Comm Srvcs
FACEBOOK A	1.95	2.03	Comm Srvcs
JOHNSON & JOHNSON	1.49	1.47	Health Care
ALPHABET A	1.46	1.61	Comm Srvcs
NEXTERA ENERGY	1.38	0.47	Utilities
HOME DEPOT	1.32	1.02	Cons Discr
VISA A	1.24	1.25	Info Tech
Total	25.34	23.63	

Source: "MSCI USA Extended ESG Focus Index (USD)" Factsheet.

Take Microsoft, which tops the MSCI ESG index, and which *Forbes* criticized for its "grim" diversity statistics: much like the tech sector at large, Microsoft's workplace is over 75% male and 60% white; Apple and Amazon offer similarly homogeneous environments.[4] Microsoft's CEO recommended that "women shouldn't ask for raises, and instead, rely on karma to propel their careers forward."[5] *Karma!* As of fall 2019, Microsoft's women were still in legal battles for pay equity.[6] Recently, its Black employees leaked memos to the media to pressure their CEO to support Black Lives Matter.[7]

Actively managed ESG funds did not show a substantial difference in investments than passively invested funds that track the ESG index. *Forbes* calculated that the $2.3 billion held in actively managed ESG mutual funds had its largest holdings in Microsoft, Alphabet, Amazon, and Apple.[8] Why are ESG funds so focused on these companies when there are other, more socially conscious tech companies? Marc Benioff, CEO of Salesforce, led the push for a San Francisco tax on big companies[9], to be used to combat homelessness and publicly pay women on an equal footing with men.[10] Yet Salesforce does not show up in the top investments for socially responsible investment indices.

Why haven't ESG fund managers paid attention to the lack of diversity of the companies they invest in?

That's an excellent question—especially since a company's governance and social consciousness are supposed to be among the criteria for ESG investments. But it's hard to see a problem when you're looking in a mirror.

While diversity in the tech industry is bad, it's even worse in wealth management.

In 2004, I wrote the first paper for the World Economic Forum on the business case for women and diversity "Why the Advancement of Women is Strategically (and not just Politically) Correct".[11] Since I wrote that paper, the World Economic Forum launched its highly regarded Global Gender Gap Report[12] and McKinsey[13], Gartner[14] and other prestigious firms have shown statistically that ***diverse teams result in better financial outcomes.*** The industry has had more than a decade to incorporate this information and diversify itself, but little has changed for white women and people of color. Dive into the current statistics and it's clear that too often claims of diversity are the corporate equivalent of lipstick on a pig.

People of color and white women manage just 1% of assets in the United States, a percentage that hasn't budged since the early 1970s.[15] More than half of college graduates are female, but only 14% of financial advisors are women; the majority are still confined to administrative roles.[16] That's what happened to me when I graduated from Wesleyan in the 1990s. In the World Financial Center, I was trapped in *Working Girl* while the men were playing *Wolf of Wall Street*. It wasn't until I came back to finance with graduate degrees from Northwestern and Harvard that Wall Street hired me into a non-secretarial role.

The appalling diversity statistics in wealth management should alarm anyone with a 401(k) or a financial advisor. There are over 270,000 financial advisors[17] managing trillions of dollars in wealth – including yours, either directly or through retirement funds, equity share plans, or any number of financial instruments. These financial advisors are overwhelmingly male and pale, with an investment approach driven by the groupthink of their boy's club workplaces. Their white male echo chamber leads to myopic investment strategies and investors pay the price. Men make up 90% of portfolio managers and 91% of active fund managers have under performed their benchmark for 15 years.[18] MarketWatch reports that men have gotten 85-90% of the new roles in mutual funds even though data shows that women equally or out-perform men and have more credentials like the CFA.[19] It makes sense that if women and minorities represent over 50% of the marketplace, that all-white male investment teams cannot run successful investment portfolios given their gigantic blind spots. So how do wealth managers respond? They lower client expectations. They advise clients that it is impossible to beat the market and shift the conversation to "goals-based" planning and their next golf outing.

Given these statistics, investors who actually care about diversity should look more closely at their wealth management teams. Take Morgan Stanley, a firm that paints itself as a leader in ESG. On June 18, former Morgan Stanley Chief of Diversity Marilyn Booker sued the company for racial discrimination and harassment. Booker claims Morgan Stanley offered only superficial support for her diversity efforts, and never took seriously the importance of fostering an inclusive workplace.[20]

What can you do as an investor?

1) Find an advisor who is truly committed to diversity.

It takes work to research companies that reflect your values *and* can provide you a substantial return. Find an advisor who shares your commitment and *walks the walk, not just talks the talk.* Check out the diversity of your financial advisory team and move your money to a more equitable team or a diverse advisor who is likely superior given s/he has been able to survive in a hostile industry without the hand-outs that their white male peers often receive.

2) Encourage your employer to require the financial firms that it does business with to switch to a more diverse wealth management team.

Even companies that claim to care about supplier diversity do not apply that lens to the teams managing their lucrative corporate equity compensation, 401(k) plans, and pension funds. Too often, an investment bank takes a company through its IPO and these lucrative corporate plans fall into the lap of the overwhelmingly all-white male wealth management team that the same firms have anointed to provide these services. Even supposedly socially conscience pension funds have invested to the ~$100 billion with Ken Fisher who has likened attracting clients as akin to trying to get into a woman's pants and later issued a statement that he often uses such "colorful" language.[21]

3) Encourage Barron's, Financial Times, CNBC and other "Top Advisor" publications to use diversity and performance in their rankings.

Currently, the good old boys are regaled with awards based on years of service and assets under management, not investment performance. The title of "Top Advisor" is like a modern-day version of the landed gentry. A retiring advisor (almost always a white man) has accumulated accounts over his 40+ year career and anoints someone to take over his accounts and, with it, the title of "Top Financial Advisor." If it's not actually his son, it's usually someone who looks like his him. People of color and women usually get left out of this game of patronage. Even publicly traded firms that tout their diversity continue to give wealth management teams leeway to hire whomever they wish, so they hire people who will "fit" on the team. Why add a woman to your advisory team if you can no longer "let loose" at team drinks? Especially if you already have one woman on your team? Why add a young black man if he doesn't have rich parents to bring on as clients? Firms claim they are acting as fiduciaries to clients but they are not ensuring that the best person gets the job and that clients are best served. All those guys who thrived in *Wolf of Wall Street* cultures? - they are now rewarded for their "years of experience" while women and minorities were essentially shut out. CNBC just launched its Top Financial Advisors list and its top pick went to Salem Investment Counselors which controls over a $1 trillion and *surprise! (not)* all of its 10 investment advisors are white men, mostly aged.[22]

4) Demand that companies post their racial and gender statistics annually across all roles.

The UK government recently successfully launched mandatory gender pay gap reporting for all firms with over 250 employees. This mandatory, uniform reporting exposes financial firms'true data to be held accountable for hires, fires, and promotions across all roles. With mandatory, standardized reporting, firms will find it harder to cherry-pick their numbers to project a diverse image when the reality is overwhelmingly male and pale. Mandatory reporting should extend to race as well as gender across all roles.

5) Ask questions:

"How diverse is the financial advisory team working on my investments?"
"How well did they perform in growing and protecting my savings?"

Keep asking questions until you're satisfied—because this diligence can pay off for you. **It is possible to be a socially responsible investor *and* outperform the market.** I know. My clients have been rewarded for trusting their savings with me despite my non-traditional package.

My clients' portfolios are up 12% for the first half of this year vs. -5% for the US stock market index and -8% for the world index.[23] Elite and expensive male-dominated hedge funds continue to trail their benchmarks.[24] My clients' portfolio performance is over 25% better than Bridgewater, the world's largest hedge fund—which is now being sued for gender discrimination by its former CIO.[25]

Manager – equities	1st Half 2020	2019
Maya Joelson's clients	12%	31%
Bridgewater "Pure Alpha"	-13.6%	0%
Maya's outperformance	***25.6%***	***31%***

Despite Bridgewater's poor performance and disputed ethics, the firm's founder Ray Dalio told the *Wall Street Journal* that there is, "a waiting list to invest" in his flagship fund. [26]

It is encouraging to see that clients are seeking socially responsible investments but clients need to move their money where their mouth is and stop investing with the status quo who have benefited from an unequal playing field. Those who do may likely be rewarded with advisors who can outperform the status quo, because they have had to fight harder and smarter to survive in this business. I can't tell you how many investors whom I have met who won't leave their financial advisor because he's "a nice guy", "my golfing buddy", "like a brother to me", while I see their financial statements and see how much money this "nice guy advisor" has under performed the market and charged them underhanded commissions. Unless society and clients demand change from their investment advisors and the wealth management industry, minorities and women will never have an equal opportunity to become a "Top Advisor", no matter how skilled they are. Trillions of dollars are currently being passed down in the financial industry from (usually white male) advisor to (probably white male) advisor. Are you going to start rewarding talent or keep rewarding the status quo? Both your conscience and your wallet will thank you if you demand equal opportunity in the finance industry.

Please contact me if you want to talk more about your investment goals.

Best regards,
Maya

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P.S. I'm thinking of establishing a Real ESG task force. Let me know if you'd like to consider working on this.

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Maya is a Harvard-trained economist who leverages her two decades of top-level experience across Wall Street, the City of London, emerging markets, and advanced technology to devise investment strategies for her clients. She founded Meta Point Advisors after several years as a Financial Advisor at Merrill Lynch. Maya's clients benefit from her ability to provide savvy active management without the cumbersome costs and structure of mutual funds. She has been quoted in ***The Wall Street Journal, The World Economic Forum,*** and ***Barron's***.

Maya Marisa Joelson holds a MPA from Harvard Kennedy School, a MBA from Kellogg at Northwestern University,

and a BA from Wesleyan University.

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