RIGHTING WRONGS

How can ESG-minded investors do the right thing for historically marginalized and mistreated communities?

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For portfolio managers and gatekeepers, considering the issues of the day can often help to sharpen their evaluations of investments and investors.

However, it can be difficult to gain systematic insight through a series of disjointed moments – no matter how profound they might seem to be. This is one of the great challenges facing ESG investors.

Even so, continuities do emerge across various issues and incidents, sometimes leading to an overarching intellectual framework or a process that can be put to work for the purposes of analysis. The patterns can even emerge without you looking for them.

This kind of framework makes it possible to simultaneously speak to the moment and think more comprehensively about where ESG comes into play over the course of market cycles.

Just in the past couple of weeks, two completely unconnected events have taken place that require us to consider yet again some fundamental questions of human dignity and where investor responsibility lies.

Widely reported in the press, there was an incident at a Philadelphia-area Starbucks, where two African-American patrons were unfairly and improperly treated, including the over-the-top and completely unnecessary involvement of law enforcement.

Fortunately, the situation did not end as so many others have – where fear, racism and armed law enforcement cross paths – and even more fortunately, the two gentlemen seized the moment as an opportunity to teach and empower. Starbucks has also taken some steps, although fairly limited thus far, to address this defect in their corporate culture and to start a conversation about the responsibilities of businesses that exist at the public/private interface.

The second incident, equally insidious, took place on the campus of Colorado State University during a tour. Two Native American brothers were visiting the campus on their own dime as part of the older brother's search for a transfer school. Being non-white, joining the tour a little late and remaining respectfully quiet (too quiet, apparently) were sufficient cause for them to be pulled out of the tour and hassled by university personnel and law enforcement on the say-so of another tour participant.

Both of these incidents are undeniably rooted in racism. Businesses and institutions may not be the engines for solving an endemic societal issue of this kind, but they can and should be tasked by their funders with respecting and protecting human dignity and not fostering the disenfranchisement of individuals or entire populations.

'They claim this mother of ours, the earth, for their own and fence their neighbors away; they deface her with their buildings and their refuse. The nation is like a spring freshet; it overruns its banks and destroys all who are in its path'

Sitting Bull

A SHAMEFUL HISTORY

Native American history truly is a trail of tears, punctuated by the theft of land and life to the point of genocide – and the subsequent marginalization of those who remained. Somehow, in 2018, sacred lands and fresh water supplies are still being soiled or stolen in places such as Bears Ears and Standing Rock – all supposedly in the name of the public interest and corporate profit. Natural resources continue to drive much of this behavior, almost 170 years after the California Gold Rush began.

The question here is how a portfolio manager can incorporate these types of issues into an ESG-centric investment process, and how a gatekeeper would ultimately evaluate that process and the portfolio's outcomes.

The first thing to establish is that the (mis)treatment of Native Americans comprehensively crosses markets. For corporations, the connection seems obvious: Business involvement and controversy analysis will inform managers of company performance on measures of human dignity, treatment of aboriginal populations, workplace diversity and community integration. This kind of assessment can easily be applied to any security in the capital stack of a company.

For municipal securities, this connection is perhaps less obvious; until it is pointed out, that is. In the case of public universities such as Colorado State – which typically use municipal finance to fund dormitories, campus development and stadium construction and which receive taxpayer dollars to support their wider operations – investors can look critically at those bonds and assess whether the institution embraces diversity in its enrollment practices, student housing, scholarship awards and even its curriculum.

Meanwhile, when it comes to the greatest historical transgressor, the Federal Government and its Treasury – which issues $20 bills with the 'Indian Killer' Andrew Jackson on the obverse – portfolio managers can look critically at Treasury securities in the context of the Native American population in the same way that Quaker asset owners eschew the same securities on pacifist grounds. Even mortgage- and asset-backed securities can be assessed based on whether an appropriate level of lending has taken place to create economic opportunities for Native American businesses and communities.

PUTTING ESG TO WORK

After understanding that these issues cross markets and asset classes, the next step is to understand how a portfolio manager can incorporate these considerations into the securities research and portfolio construction process. There will not be a universal standard, any more than there is with any other issue in ESG. In fact, there are often difficulties with E, S and G priorities coming into conflict. Essentially, what is a portfolio manager to do when something that is right comes into conflict with something else that is also right?

One example might be gaming, which is considered a vice and a catalyst for addictive behavior and is often excluded from ESG portfolios, but which is a critical economic engine for many Native American tribes.

Another might be dealing with extractive industries, which often have material environmental costs but which can also provide an opportunity for Native American communities to monetize some of the poor and unproductive land on which they were historically resettled.

As such, it falls to gatekeepers to examine how portfolio managers incorporate this type of information into their decision matrices to enable a systematic means of addressing the priorities of Native Americans – and plenty of other disenfranchised communities too.