An Assessment of Jantz Morgan’s Environmental, Social, and Governance Investing Portfolio and Opportunities for Growth

15.915 – Laboratory for Sustainable Business

Marisa Gerla
Michelle Guerette
Mariya Krasteva
Tara Thomas
W. Greg Zielinski

May 12th, 2011
Executive Summary

This document is the final report based on results from a semester-long project through MIT Sloan’s Sustainable Business Laboratory. It is part of a collaboration between a team of five MIT Sloan MBA students and Jantz Morgan LLC, a Boston-based investment fund. The student team was charged with identifying how Jantz Morgan could position itself in the ESG sector to most successfully scale its business, particularly as one of the few quant firms with ESG portfolios.

The team investigated three key research questions, based on primary and secondary research. First, we examined the competitive landscape for quantitative investment firms offering ESG portfolios and services. We specifically looked at the range of small-cap funds in which competitors worked on ESG portfolios. The second problem we addressed was formulating an effective strategy for branding this quantitative, values-based investing strategy. Thirdly, we looked at channeling methods for marketing Jantz Morgan as a source for “Responsible Quantitative Value Investing.” This proved to be exceptionally important, as Jantz Morgan’s exposure to portfolio managers and investment consultants could have multiplicative effects on its marketing efforts. Ultimately this allowed the team to make short- and long-term recommendations in three main categories: 1) Branding, 2) Market Access, and 3) Internal Structure. These recommendations are summarized below:

<table>
<thead>
<tr>
<th>Short Term Opportunities</th>
<th>Long Term Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Communicate the investment strategy and performance more explicitly</td>
<td>- Legal Structure – evaluate whether the current LLC designation represents the optimal legal structure for pursuing future business opportunities</td>
</tr>
<tr>
<td>- Focus on values-driven investors</td>
<td>- Growth Strategy – evaluate the degree to which Jantz Morgan would like to grow in order to attract more diverse clients</td>
</tr>
<tr>
<td>- Pursue small/mid-sized investors initially to build base before targeting larger investors</td>
<td>- Thought Leadership – publish white papers that attract attention to Jantz Morgan’s investment strategies</td>
</tr>
<tr>
<td></td>
<td>- International Strategy – evaluate opportunities in foreign markets for ESG investors, especially in the Eurozone area</td>
</tr>
</tbody>
</table>

We look forward to seeing how Jantz Morgan is able to leverage the findings and recommendations in this report to chart its next steps as a firm.
I. Background

Company Overview

Jantz Morgan is a Boston-based investment management company founded in 2002. The company’s investment thesis is based on the premise that a disciplined, quantitative value approach can lead to substantial excess returns over the relevant benchmark, even when environmental, social, and governance (ESG) characteristics are applied to the portfolio selection process.

Jantz Morgan currently manages $21 million in assets under management from 40 institutional and individual investors. It offers three socially neutral products (JM Value, JM Mid-Cap Value, and JM Small-Cap Value) and four ESG products (JM ESG 50, JM Large-Cap ESG, JM Mid-Cap ESG, and JM Small-Cap ESG) derived from the S&P 500, 400, and 600 indices depending on their respective size constraints. Over the past year, the value funds have shown returns of 20.9%-40.73% and the ESG funds have returned 23.08%-43.81%, as of February 28, 2011.

The ESG portfolios were added in 2007 to offer clients a product that aligns with their social values and demonstrate that socially responsible portfolios can, in fact, outperform comparable socially neutral portfolios. These products are drawn from the same universe as the JM Value funds, but preference is given to companies that exhibit good ESG characteristics. In addition to risk and return considerations, companies are weighted to optimize ESG values including environment, governance, human rights, diversity, community, employees and products. Thus far, the mid-cap ESG and ESG 50 portfolios have outperformed their respective indices since their inception. While the small and large cap ESG portfolios have only one year’s performance for measurement, they are also expected to outperform due to their ESG criteria.

Environmental, Social, and Governance (ESG) Investing Overview

Non-financial factors alongside financial return have become much more important to institutional investors recently, and investment managers that do incorporate social and environmental factors in their portfolios have begun to market themselves more aggressively. For example, the Canadian-based NEI Investments now uses the term ESG instead of “sustainable or responsible investing”.

To fully understand this industry, it is important to establish a common definition of the following three terms: ESG, SRI, and Impact Investing. For the purposes of this paper, we will base our discussion on the following definitions:

**ESG Investing:** ESG investing uses environmental, social, and governance criteria to identify companies that are most valuable in each respective universe. ESG investors believe that companies’ increased value comes from their adherence to better practices in each of the aforementioned criteria, and this value will be realized by the long-term performance of each of those companies. ESG investing evolved from SRI investing, and it is differentiated by the fact that, to an ESG investor, a tobacco company’s stock is greatly devalued by its impact on people’s health, but it does not claim that this equity should be divested from the portfolio.

**SRI Investing:** Socially responsible investing can be best understood as the precursor to ESG investing. Formerly, investors chose to derive value through withholding investments from companies that either had detrimental missions or practices in the eyes of the investor. SRI resembles ESG investing because it places

---

1 ESG Managers website, accessed 7 May 2011.
similar value on stocks that an ESG investor does, but it differs from ESG in the fact that it is generally more focused on exclusion rather than positive selection as ESG investing does.²

**Impact Investing:** Refers to actively placing capital in businesses and funds that generate social and/or environmental good and, at a minimum, return nominal principal to the investor. Funds are often dedicated to a specific issue area either through public securities or in early stage or private capital markets.³

Though all three of these spaces are expanding significantly, the ESG investment space provides a number of unique opportunities as more managers introduce ESG products in addition to their regular offerings. This is due to increasing institutional investor appetite for investing in companies with positive social values. For example, CalPERS is currently working on formalizing an investment approach that incorporates ESG factors into all asset classes. This is driven by a belief that ESG products provide risk management and return benefits. In addition, many funds that we surveyed are now indicating that they are signatories to the UN PRI on their website. This serves as both a motivating factor and a marketing tool for further incorporating ESG investing into their product mix.

While the data on the tangible results of ESG investments on overall portfolios is still unknown, investors are increasingly paying closer attention to these criteria. Some investment managers have made strides to relate ESG criteria to profitability. However, all of the profitability benefits outlined appear to be mostly qualitative and the challenge to quantify those benefits remains.

It is also important to note that the concept of ESG versus SRI investing has been rapidly evolving. As a result, there are two key groups of investors – those who are interested in “green” type funds and those interested in “change”/SRI. One problem, though, is that there is much overlap between these two classifications of companies. Due to the differing needs of these two groups, it will be important to determine how meeting the portfolio needs of each of these groups would benefit or limit a company’s potential market.

**Overview of Quantitative Funds and Their Interaction with ESG**

Quantitative funds (versus actively managed funds) are not as common within the ESG space. Quantitative models used by such funds identify stocks that are likely to be undervalued, based upon an analysis of fundamental ratios. A perceived strength of quantitative funds is their consistency, given that opportunities for human misjudgment and irrationality are decreased by a reliance on statistical models. On the other hand, some argue that embedded assumptions can cause errors and express concern that these strategies are based on historical patterns in data, even though past performance may not predict future success. While these are popular critiques of quantitative investors, the same critiques can be applied to actively managed funds and investors as well.

When an ESG strategy and a quant strategy are combined, some questions arise:

1. What is the duration of the investments made? The frequent rebalancing of a portfolio according to a quantitative model may mean that positions in “green” companies are not necessarily consistent over time.
2. Is screening strictly exclusionary? Modern portfolio theory holds that eliminating stocks from an available universe will inherently limit the maximum return possible.

---

² Kyle Johnson, Cambridge Associates LLC, Environmental, Social, and Governance (ESG) Integration: For Performance, For Ethics, or Both?, 2010.
3. Does the ‘quant’ designation imply undue risk to investors? After high-profile losses and other negative impacts traced to high-risk proprietary trading models, the concept of a quant fund may not be as well-accepted by public and investors as in past.

It is important to note that quantitative methods are not used in the vast majority of ESG strategies today.

II. Research Methodology

For this project, we conducted two phases of research. The first phase was data gathering through secondary sources. Here, we used mostly scholarly articles, company websites and resources, and white papers to help formulate our thoughts and background on the ESG investing space. In Appendix 3, we have attached a bibliography of the articles, websites, and journals from which we collected our data.

The second phase of research for this project consisted of interviews with different actors in the ESG investing space. We focused our interviews on five main areas: competitors, institutional investors, investment or portfolio managers, academic perspectives, and sustainability ratings agencies. These perspectives were very fruitful, and they helped continue to shape our views of the ESG investing space. The specific people and corporations with whom we conducted interviews are available in Appendix 1.

The interviews from these projects brought to light different investing perspectives, data perspectives, and a variety of different approaches to the ESG space. We used these extensively in forming our views and recommendations for this report.

Below is a general timeline of our project:

**Competitor Analysis (March 28 – April 17):**
We analyzed competitors and the existing ESG investing landscape in order to evaluate Jantz Morgan’s strengths, advantages, and potential vulnerabilities in this market; specifically focused on the small- and mid-cap segments.

**Branding Analysis: (March 28 – April 17):**
We assessed Jantz Morgan’s current branding in light of the company’s strengths, investors’ needs, and the company’s current position within the market for ESG investing. As part of this analysis, we investigated aspects of both the quantitative and ESG spaces in which Jantz Morgan is simultaneously positioned.

**New Clients and Channeling Analysis: (March 28 – April 24):**
We identified potential clients or segments for Jantz Morgan, and will consider both existing and potential communication channels used to reach these clients. As part of our findings, we identified preliminary recommendations for the target market segments.

**Data Compilation, Synthesis and Deliverables (April 11 - May 6):**
We applied insights from our primary and secondary research to generate this final report and recommendations for Jantz Morgan.

III. Project Findings

In structuring the findings for this report, we will focus on five main areas. Each of these areas highlights information that we obtained through talking to key industry players in the space and some of our interpretations of this data. The five areas are listed below:

- **High-level findings** from the industry in general
- **Benchmarking** areas of the ESG investing space. An important question that continued to arise in our research was how to quantify ESG criteria, and if a fund or ratings agency did that, would their
ratings and their prioritization be any different from others in the space. While this is consistent overall in the difficulty in correctly valuing companies, this will bring yet another level of difficulty for investors in the future.

- **Competitive landscape.** Here, we looked at comparative ESG products in the domestic investing world and how those stack up against Jantz Morgan. Additionally, we hope to expose any movement in the industry away from traditional investment managers to managers more focused on the ESG space.

- **Institutional investors’ perspectives** on ESG investing. Since these are the primary aim of Jantz Morgan, we sought to get their perspectives on what they actually thought ESG investing was and why it was important to their portfolio.

- **Investment consultants** – As the main vehicle between the investor and the market, we saw these individuals as playing a crucial role in the ESG investing space.

## A. Industry-Level Findings

We found some interesting trends regarding ESG investing in general. First, we observed the disparity in opinions on what ESG investing actually means. In one interview we conducted, it was noted that out of 10 interviewees, 8 would have a completely different concept of what ESG means to them. Investors also vacillate on their definitions of ESG and SRI investing. From our interviews, we observed that up to one-third of investors looking to invest in an ESG-style portfolio come with restrictions on their investments. These restrictions are more akin to our definition of SRI investing, so there is a disconnect in the exact definitions in this investing space. The second important takeaway from an industry-level perspective was that there is a big bandwagon effect around ESG investing. Many of the larger investors, having seen the trends of ESG investing, are receiving both internal and external pressures to pursue these investments or create these investment portfolios. Larger firms have the upper hand in this respect because if they are looking at creating ESG products, they can entice their clients who want more ESG investing to stay with them.

## B. Evaluation Methods and Ratings Organizations

As discussed above, quantifying ESG metrics and criteria is difficult due to the ambiguity of the market’s preferences on each of the areas of sustainable investing. Another very difficult hurdle in this area is that sustainability data, especially in U.S. markets, is still relatively new. Additionally, companies can be arbitrary in writing their sustainability reports, something we will go on to discuss in the coming pages. However, KLD (now MSCI) consistently came up in the interviews as a good provider of ESG data.

### Ratings Agencies and Indices

One of the challenges of the ESG sector is defining consistent metrics for impact. Several organizations have emerged as leaders in this area over the past decade, however, the sector is still expanding and is fragmented by industry, impact area and asset class. A recent inventory of the corporate sustainability ratings universe conducted by SustainAbility found more than 100 different ratings providers operating in this sector.4 Through our research, we identified a few broad categories of raters, and had an opportunity to interview several of them about their methodologies and observations of the sector. Below is an overview of some of the major actors in the different categories:

#### Public Security Indices:

**KLD/MSCI:** MSCI operates three key categories of indices: “Best-of-Class” which targets the highest-rated ESG companies by sector, “World ESG,” which includes companies based on a sector peer comparison,

---

4 SustainAbility, “Rate the Raters Phase Two: Taking Inventory of the Ratings Universe,” www.sustainability.com (October 2010).
and “USA ESG Select,” which maximizes exposure to high-ESG companies while maintaining the risk and return profile of the broader portfolio.

**Dow Jones Sustainability Indexes:** DJI provides a series of global and regional sub-indices that track the performance of companies that score well on the Corporate Sustainability Assessment produced by SAM Research that covers a series of 12 economic, environmental and social criteria. The indices are currently licensed to over 60 asset managers (Chicago Climate Exchange, The Dreyfus Corporation, State Street Global Advisors, and TD Asset Management USA in the US) and can also be customized to an individual financial institution’s specifications for sector preference, exclusion criteria, and currency.

**FTSE:** FTSE manages a 7 indexes or index series related to responsible investing. The FTSE4Good Index series, the FTSE4Good ESG Ratings, the FTSE CDP Carbon Strategy Index Series and the FTSE Environmental Markets Index Series track criteria related to ESG across a variety of global equity securities.

The above leading indices license their products to financial institutions for research and benchmarking purposes, and several offer customization options to better match client needs.

**Corporate Sustainability Ratings**

**Trucost:** This rating system quantifies and prices the environmental risk of company operations, supply chain, and portfolios. The metrics are used by companies to manage and report their environmental risk profile and by investors to factor in environmental externalities into their investment risk profile. Our conversation with TruCost indicated that they’re seeing more of a recognition that “business as usual” is not sustainable. In particular, clients are looking for metrics around supply chain, quality, operational risk and, in some cases, governance.

**B-Lab:** The B Impact Rating System offers a free online corporate ratings tool and best practice guides that teach companies how to incorporate more sustainable features into their governance, employee, supplier, environmental, and community impact. Corporations that achieve a certain threshold across categories become B Corps. Companies that change their corporate legal framework to reference all stakeholders (including employees, consumers, community and environment) can become certified B Corporations in those states that have approved legislation (currently Virginia, Maryland, Vermont and New Jersey). B-Lab is using this same corporate methodology to drive the Global Impact Investing Ratings System (GIIRS), which is a system primarily (though not exclusively) oriented towards private equity and venture capital funds. GIIRS is still being tested, but is expected to roll out in before 2012.

**Global Reporting Initiative (GRI):** GRI is a consortium that has helped to establish the most widely-used framework for sustainability reporting. More than 20,000 stakeholders help to use and refine the metrics. The company also provides guides for companies on how to begin to measure their impact.

While the growth in ratings mechanisms certainly highlights the expansion of the ESG sector, their growth also contributes to the continued difficulty in establishing consensus around a consistent set of metrics. In addition to this metrics confusion, the SustainAbility report also identified a number of challenges and limitations within the current ratings landscape:

- The attempt to universalize ratings across sectors and geographies may result in excessively broad categories that ultimately lose their meaning
- The use of primarily public data in measuring sustainability can prove insufficient
- Selection bias occurs when company responses to rating agency requests for information are voluntary; the rated companies tend to be self-selected
- There is a general lack of transparency with respect to ratings methodologies
These considerations around ratings focus and the data validity are important to keep in mind when screening and filtering using ESG criteria, and when choosing how to market an ESG portfolio to a client.

C. Competitive Landscaping

Along with the increased interest in ESG investing, competition in this space has also been growing. In our research, we noted that there are many investment and portfolio managers who have not only begun advising their clients on ESG investing, but also are creating their own ESG portfolios. Among quant investors, Quotient Advisors, Advanced Investment Partners, and Auriel Capital are incorporating ESG into their model as a mechanism for mitigating risk while boosting return. Other advisors such as Trillium, Domini, Calvert, and Generation, among others, have been active in the space for a while and often follow a sector-targeted approach that positively identifies specific industries and companies with favorable sustainability criteria. These funds often exclude the typical “sin” stocks, though this can be customized depending on client preference. In addition, many of these companies serve as activist shareholders seeking to transform company policy on behalf of their clients through their investment approach.

State Street Global Advisors and GS Sustain both provide good examples of traditional and institutional asset managers that have begun to take this approach. Additionally, we found that even large institutional funds are attempting to incorporate ESG into their valuation methodologies outright, instead of focusing on ESG as separate asset class. This approach is more common across the European landscape, though CalPERS has reportedly committed to incorporating ESG factors across its entire portfolio by the middle of this year. The entry of this more traditional market segment broadly expands the competitive universe.

Through our research, we compiled a list of managers that have an ESG or SRI focus. This database is included as Appendix 2.

D. Institutional Investors

Based on background research and interviews, it is clear that there is not a one-to-one mapping between the type of investor and the designations of investment strategies. Rather, it is most important to understand the motivations behind the investor’s desire to invest.

<table>
<thead>
<tr>
<th>Investor Type</th>
<th>Motivations</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRI</td>
<td>Values-driven investors</td>
<td>If an investor has an exclusion on equities that have some sort of affiliation with the Sudanese government, they will not invest in that equity. For example, if Delta flies to Sudan, they will not invest in Delta.</td>
</tr>
<tr>
<td>ESG</td>
<td>Financial-first Investor and/or an investor who believes in sustainability as a long term value driver. Return – these investors aim to “long the environment.” They claim to gain higher returns based on their ESG criteria. Note that there is still much disagreement between what is actual ESG investing, and many claim that ESG is really a hybrid of the returns stated above with exclusions on their equities.</td>
<td>In addition to investing in companies that meet ESG criteria, a negative ESG factor could be used as well to drive financial return – an example of this would be an investor taking a position based on the belief that an environmental lawsuit will cost only $3B, and not $10B, meaning that the company is undervalued</td>
</tr>
<tr>
<td>Impact Investor</td>
<td>Impact-first Investor ESG factors are picked to support</td>
<td>An investor who cares much about sustainable farming practices in Africa could weight their portfolio toward equities that</td>
</tr>
</tbody>
</table>
mission-driven concerns or impact investing focus. These are typically clients that only want to invest in certain types of companies or industries that align with this mission.

Based on the 2010 Report on Socially Responsible Investing Trends in the U.S., ESG incorporation into SRI assets (total of $3.07 trillion) has produced global assets under management (AUM) of $2.51 trillion, with Institutional investors holding about $2.3 trillion of ESG investments to comprise the largest ESG investor group. According to the report, 85% of ESG money managers cited client demand as the main driver for incorporating ESG criteria into investment management, with 52% of institutions citing regulation and legislation as main reasons. The report also mentions that “impact investing” and “program-related investing” has become more popular with not only institutional investors, but also with foundations and high-net-worth individuals.

Over time, there has been a change in assumptions regarding the competitiveness of ESG investing. While there is an assumed ideological ‘divide’ between traditional and sustainable investors, this divide is nonetheless closing as ESG factors, and environmental factors in particular, are increasingly found to be driving enhanced returns.

As a way to understand this shift, some actors in this space have started to classify investors as falling into three categories: first, second, or third generation⁵. We have listed these below:

1. **First generation**: negative screening to eliminate companies that are not aligned with the investor’s mission.
2. **Second generation**: ESG factors are incorporated into investment decisions through positive screening
3. **Third generation**: ESG factors are actively pursued for enhanced financial returns.

Though ideas continue to change with time, with assumptions regarding ESG evolving from ‘restrictive’ towards more ‘competitive,’ it is critical to understand that individual investors’ viewpoints do continue to exist on all points along this spectrum. As support, we offer some examples of institutional investors’ viewpoints below.

Investors strictly seeking a strictly competitive advantage may represent a growing base of potential clients for Jantz Morgan, given the shift toward a competitive view of ESG combined with Jantz Morgan’s above-market returns. Individuals primarily seeking enhanced returns based on superior knowledge of environmental and other sustainability factors are more likely to consider a Jantz Morgan ESG product than in the past.

At the same time, other investors interested in ESG-driven returns may still be expecting a high level of restriction. For example one ESG manager whom we interviewed said that despite his clients’ insistence on ‘ESG investing’, 75-80% of his client base nevertheless placed restrictive components on the investments, indicating that many of these institutional investors are still equating ESG investing as primarily restrictive, (“socially responsible investing,” by our definition). This manager and several others said that, while they do expect this ratio to decrease over time, they believe clients will nevertheless expect some level of restrictions to remain, regardless of how returns-oriented ESG investing may become.

Some perspectives we unearthed through our research revealed continued skepticism that ESG or SRI could produce satisfactory alpha, despite demonstrated returns. In a press release by Quotient Investors, the CIO, Andre Bertolotti, remarked that “We’ve met several investors who wanted to have ESG exposure,

---

⁵ Concept described by Chris McKnett, SSgA product creation specialist.
but were skeptical of the returns from passive ESG benchmarks or simplistic negative screening.” This in turn conflicts with some of the other data that we found, where asset managers mentioned that many of their investors expect that socially responsible investors want screens in their portfolios.

Yet another investment manager recommended that the institutional investors most likely to be interested in the ESG portfolios would be investors who already have asset allocations to “alternatives.” Some of these alternatives are investors inclined to invest directly in solar, water, or sustainable farming practices in Africa. This manager went on to mention that it would not be worth going after the traditional investors, as they follow the herd mentality too closely.

Based on these discussions, our conclusion is that SRI, ESG and impact investing definitions are not consistently interpreted across all these investment professionals, and a significant amount of overlap among those categories may exist.

E. Investment Consultants

Investment consultants perform a key role as gatekeeper in the investment industry. Most of the consultants with whom we held interviews had a conservative viewpoint on investing, and they also hold a difficult position on ESG investing. Specifically, a few mentioned that if ESG is truly the alpha creator that it claims to be, then it will manifest itself in the overall valuations of these equities.

The consultants did provide good insight into marketing for ESG investing, however. First, they mentioned that if investment managers could provide customized portfolios for smaller investors along ESG criteria, then they could leverage that service as a significant marketing tool. For example, this customization could come in the form of equities’ restrictions, variable weighting on environmental versus social criteria, or a focus on ESG investing within a certain industry. Many of the larger ESG investors do not offer these alternatives, and this could serve as a differentiating factor.

Some other viewpoints offered to us were that public pensions are at times under political pressure to invest in ESG products. From this standpoint, they are more interested in the product positioning and marketing of ESG for their constituencies. Foundations and endowments, on the other hand, are more private and do not have that kind of pressure. They are more actively performance-driven. Overall, traditional investors are significantly more financially driven even when considering social impact.

IV. Recommendations

We saw a number of themes begin to emerge across the two broad categories we were asked to explore – Marketing and Customers/Channels. These recommendations have been broken into short-term (Immediate to 1.5 Years) and long-term (1.5 to 5 Years) opportunities based on how long we anticipate it would take Jantz Morgan to implement them. We have displayed the recommendations in the table below:
### Short-term Opportunities:
The opportunities outlined in this section of the paper are anticipated to be the “quick wins,” and can be implemented over one month to one and a half years.

**Marketing:**

Marketing is one of the key places where Jantz Morgan can quickly gain traction. Our recommendations for Jantz Morgan really hinge on expanding their already active marketing efforts in two major domains, around their investment strategy and their performance. Especially with the recently hiring of a market director, Jantz Morgan is well-positioned to implement these short term recommendations immediately if they so choose.

**Explaining the Jantz Morgan Investment Strategy:** Jantz Morgan’s quantitative, system dynamics and ESG based approach is particularly unique within the investing landscape. As a result, Jantz Morgan has the opportunity to position itself more strongly around its process by providing a simplified and concise explanation so that funders can easily understand the core elements of Jantz Morgan’s strategy. Explaining how ESG factors are obtained and what relative weights they hold within the portfolios is very important for potential investors to understand whether their goals are aligned with this style. Additionally, if customization (negative screening) is possible, this should be marketed because a wider variety of clients can be attracted. Lastly, since quantitative investing is at times more objective than other styles; once enough data is collected it may more easily determine whether ESG factors actually drive alpha.

Given the misconceptions and fuzzy lines across definitions and terms, perhaps the most valuable action for Jantz Morgan to take is to show potential clients their selection and screening criteria and methodology.

**Highlighting Jantz Morgan’s performance:** Jantz Morgan’s performance, and particularly its success relative to other products during the recent downturn, should be magnified. Ultimately, Jantz Morgan’s marketing efforts should lead with this information. Furthermore, showing the combined alpha of screens in addition to ESG investing strongly drives investment decisions, and Jantz Morgan has the opportunity to highlight these returns more visibly in their marketing and promotional materials. Clarity
around ESG factor importance in driving alpha can benefit the product positioning. Benchmarking against closest competitor performance can also positively position Jantz Morgan.

Customers & Channels:

Jantz Morgan also has some interesting opportunities when it comes to customer channeling. Currently, Jantz Morgan’s investors come predominantly from personal connections and are centered around high net worth investors and institutional investors. We see two areas of opportunity for Jantz Morgan in the short-term: 1) Targeting more sustainability-focused or impact-driven institutional investors and 2) Pursuing small/mid-sized endowments/foundations or high-net worth investors to continue to build an investment base before courting larger investors.

**Focus on impact investors:** Jantz Morgan should target investors that are focused on sustainability or have a specific mission. First, these organizations are looking for investment products that align with their mission persuasions (some examples include, environmental or religious goals) and this preference aligns well with ESG portfolios such as Jantz Morgan’s. Some faith-based organizations do seek negative screens in addition to positive ESG selection, and Jantz Morgan can satisfy both their negative and positive screens. Second, these types of funders are often willing to take risks on smaller investment companies when these firms’ products are a good fit with their values. Finally, these investors are less discerning when it comes to performance since they are so mission-driven. As a result, they are willing to accept lower market returns in order to uphold values. However, since Jantz Morgan’s performance has been strong, it can highlight that financial returns are in fact quite attractive. Ultimately, this group of investors could provide a strong base on which Jantz Morgan could grow. One way to connect with these investors is through continuing to attend specific SRI/ESG conferences such as SRI in the Rockies, and also through ongoing affiliation with specific affinity groups.

**Pursue small/mid-sized investors initially to build base and then pursue larger investors:** Jantz Morgan should continue to target small/mid-sized investors to continue to build its total AUM and gain credibility with larger organizations. Larger organizations are generally more risk averse, and are looking to see Jantz Morgan’s track record and size of managed assets grow before committing their funds. Endowments and foundations of small/medium sizes as well as high net worth individuals have more flexibility to experiment with their portfolios than public pension plans that are subject to more regulatory and investor scrutiny due to fiduciary responsibility constraints. Jantz Morgan should work with investment consultants to continue to get their name in front of these smaller investors who often cannot afford to go to large competitors.

**Pursue clients with larger existing allocations to Alternatives:** Such investors may be more likely to put money into higher risk investments such as alternative energy or sustainability. They tend to be more active with their investments and can also be more easily attracted to invest in an emerging ESG investment manager such as Jantz Morgan.

Long-term Opportunities:

Jantz Morgan also has a number of longer opportunities it should consider exploring as they relate to branding, customers, and channeling. As a result of this focus, our recommendations fall into two large buckets: Organizational Considerations and Thought Leadership.

Organizational Considerations:
Jantz Morgan has maintained a lean operating structure since its incorporation in 2002. As Jantz Morgan continues to explore expansion, it will need to make some key organizational decisions across two major domains: 1) Growth Strategy & 2) Legal Structure.

**Legal Structure:** As the firm grows, Jantz Morgan will need to consider whether its current LLC model is the optimal legal structure for their business based on the clients they hope to attract and the flexibility they hope to have. Over the long-term it could be worth exploring whether a mutual fund structure seems like a logical transition as Jantz Morgan continues to grow and wants to court larger investors. Legal fees are associated with this, but the potential customer base that can invest in mutual funds is quite large. Competitors such as the Domini fund and others have benefited from mutual fund structures, so this could be a path to take.

**Growth Strategy:** As the company continues to expand, it will need to consider whether it can maintain such a lean organizational structure, especially in light of their focus on ESG. The ESG space is still relatively nascent with a fair amount of noise when it comes to the available information in this arena. As a result, the ESG space is complex and Jantz Morgan might require significant personnel increases to continue to refine around this investing model. Potential investors and investment consultants require one-on-one meetings as part of their rigorous due diligence, which can take up a lot of time. As a result, Jantz Morgan will need to think about how operating in the ESG arena will impact their infrastructure and personnel requirements.

**Thought Leadership:**

Longer term, Jantz Morgan has an opportunity to develop its brand around thought leadership.

**Thought-leadership:** Because the ESG investing space is growing rapidly, with interest coming from both longstanding and nascent responsible investors seeking more information, Jantz Morgan has the opportunity to shape this arena through not only their process, but also through thought leadership. By developing strong points of view on current trends and publicizing these well founded positions, Jantz Morgan can establish itself as being early leaders in ESG investing (since 2002) and differentiated further through a systems dynamics approach. Jantz Morgan can continue to build its reputation in the ESG space, and by posting white papers, newsletters, and articles issued by Jantz Morgan, along with referencing other research and reports that support the case for ESG investing through their website, Jantz Morgan can increase its profile within the investment community and gain the necessary visibility among potential clients.

V. Final Thoughts

Jantz Morgan is at an exciting juncture as they continue to navigate the ESG investing landscape. Though an emerging manager, its strong performance positions the firm well to attract new investors if marketed appropriately. This is a particularly challenging task as the ESG investing landscape is still being defined in many regards. As a result, the goal of this report was two-fold:

First, we wanted to create a common understanding of the ESG landscape. This included establishing standard definitions, analyzing the competitive landscape, and identifying key trends across key industry players. As a team, the success of our recommendations hinged on having a complete and common understanding of the industry.

In addition, we wanted to provide Jantz Morgan with some strategic and operational recommendations that could help the firm navigate this nuanced environment in both the short- and long-term. We also
recognize that there are many strategic decisions that Jantz Morgan will have to make as it considers implementing these recommendations and we look forward to seeing how the confluence of all of these decisions plays into the firm’s overall success in the future.

We deeply appreciate the opportunity to work with Jantz Morgan on these strategic questions and thank it for giving us this invaluable learning opportunity.
## VI. Appendices

### Appendix 1: Interviews

<table>
<thead>
<tr>
<th>Area of Focus</th>
<th>Corporation / Institution</th>
<th>Individual Spoken With</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitors</td>
<td>Domini Funds</td>
<td>Amy Domini</td>
</tr>
<tr>
<td></td>
<td>State Street Global Advisors</td>
<td>Simon Roe</td>
</tr>
<tr>
<td></td>
<td>Trillium Investors</td>
<td>Cheryl Smith</td>
</tr>
<tr>
<td></td>
<td>Esplanade Capital</td>
<td>Paul Strigler</td>
</tr>
<tr>
<td>Institutional Investors</td>
<td>Everence</td>
<td>JB Miller</td>
</tr>
<tr>
<td></td>
<td>Third National Swedish Pension Fund</td>
<td>Christina Hillesoy</td>
</tr>
<tr>
<td></td>
<td>High Net Worth Institutional Investor</td>
<td>Confidential</td>
</tr>
<tr>
<td>Investment Managers / Consultants</td>
<td>State Street Global Advisors</td>
<td>Chris McKnett</td>
</tr>
<tr>
<td></td>
<td>Cambridge Associates</td>
<td>Kyle Johnson</td>
</tr>
<tr>
<td></td>
<td>Mercer</td>
<td>Craig Metrick</td>
</tr>
<tr>
<td>Academics</td>
<td>MIT Sloan</td>
<td>Andrew Lo</td>
</tr>
<tr>
<td></td>
<td>Initiative for Responsible Investment at the Harvard Kennedy School</td>
<td>David Wood</td>
</tr>
<tr>
<td></td>
<td>Network for Sustainable Financial Markets</td>
<td>Angelo Calvello</td>
</tr>
<tr>
<td>Data / Ratings Agencies</td>
<td>Trucost</td>
<td>Cary Krosinski, Dr. Jamie Silo</td>
</tr>
<tr>
<td></td>
<td>B Lab / GIIRS</td>
<td>Beth Richardson</td>
</tr>
</tbody>
</table>
## Appendix 2: Excerpt from ESG Competitor Database

<table>
<thead>
<tr>
<th>Name</th>
<th>Total 1Y Returns (Period-end)</th>
<th>Equity Thesis</th>
<th>ESG Thesis</th>
<th>Portfolio Creation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quaint Investments</td>
<td>Target: 1.5% vs. benchmark over market cycle; 3.6% active risk target</td>
<td>Actively managed; Quant strategy focuses on value, growth, momentum and custom variables</td>
<td>Defines a target level for ESG exposure and then fully integrates ESG characteristics into the investment process; portfolio that seeks to deliver alpha with risk control versus a broad market index while providing the desired exposure to ESG characteristics</td>
<td>Uses “industry by industry” view and integrates ESG into large cap core equity strategy which focuses on companies that operate in a socially responsible manner</td>
</tr>
<tr>
<td>Advanced Investment Partners</td>
<td></td>
<td>Active Quant US</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trillium Asset Management</td>
<td>Large Cap: 20% (YTD 2020) Small/Mid Cap: 15% (YTD 2010) All Cap: 18.5% (YTD 2010) Sustainable Off: 19.5% (YTD 2010)</td>
<td>Active Equity strategy; low turnover, long-term horizon “Growth at a Reasonable Price” or “Core” Investing</td>
<td>Tailored based on ESG criteria, stock selection emphasizes positive contribution to society and community, active engagement with management. Sustainable Opportunities Portfolio: positive targeting of companies that fulfill either social justice, positive environmental impact or healthy living criteria; excludes all gas, mining, big box retailers and junk food.</td>
<td>Typically excludes companies that significantly engaged in the proc or marketing of firearms and wet tobacco, gambling, pornography, nuclear energy. On a case-by-case basis, avoid if a company systematically failed to protect environment, human rights, or welfare.</td>
</tr>
<tr>
<td>Parnassus Funds</td>
<td>36.00% (5/11) 37.37% (5/11)</td>
<td>Diversified equity-value approach (TSR must be dividend-paying)</td>
<td>The ESG factors incorporated into fundamental investment process: Corporate governance and business ethics; Employee benefits and corporate culture; Stakeholder relations; Product, customers and supply chain; Environmental impact</td>
<td>Exclusionary screens: alcohol, tobacco, gambling, weapons, nuclear power; Business involvement with Sudan</td>
</tr>
</tbody>
</table>
Appendix 3: Bibliography

This document provides an excellent overview of the current ESG investing space and common trends that Quotient is seeing as a result.

This book provides a guide to institutional investors regarding their approach to the environment and climate change. This is an example of a progressive, competitive view of sustainable investing that is emerging, and represents the dialogue currently surrounding this perspective.

This document showed us how Deutsche Bank views ESG investing. Also, this document gave an excellent example of how to display the ESG criteria process, showing the filtering and rating effect given in the valuation process.

Johnson’s paper gives a great overview of ESG investing and it poses the question: if ESG investing creates extra alpha, why is it not a part of normal valuation methodology? The website given does not link directly to the report, but it gives some excerpts from the points given in it.

This report gives a comprehensive overview on the history, definitions, and future trends of ESG investing.

This prospectus gave us a perspective on competitors’ views on ESG investing.


State Street Global Advisors. Vision Focus – Sustainable Investing: Positioning for Long-Term Success. http://www.statestreet.com/wps/wcm/connect/1f9fae8044624a16aa02eb2a2d0c506/Vision+Focus+Sustainable+Investing_FINAL.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=1f9fae8044624a16aa02eb2a2d0c506
This document was very helpful in understanding some of the wants and needs of institutional investors from State Street’s perspective. Specifically, this is where we drew the first, second, and third generation ESG investing parallels cited in our report.

SustainAbility. Rate the Raters Phase Two: Taking Inventory of the Ratings Universe. (October 2010) www.sustainabilty.com