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Q&A: Sustainable Investing at Green Century Funds

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Leslie Samuelrich is not your typical mutual fund manager and Green Century Funds is not your typical mutual fund. (A mutual fund is a pool of capital collected from a range of investors to invest in stocks, bonds, and other public market assets.)

In fact, Green Century Funds is the only mutual fund in the US that is wholly owned by a consortium of nonprofits. The firm was formed by US PIRG, a group of nine state-level public interest research groups (PIRGs). Green Century Funds was started by the group in 1992 as a way to invest their own funds in a way consistent with their environmental missions and also to make a larger impact through shareholder activism.

Samuelrich has spent the bulk of her career in the nonprofit world, but for the last four years she has been President of Green Century Funds. She said that in light of President Trump's decision to pull out of the Paris climate accords, it's a good time to be in a position to promote sustainable efforts through investment.

"For bad or worse, I've worked on a lot of campaigns that have lost and what you do when you lose is you just keep going and hope that you win again. So our position and reaction both after the election, the inauguration, and [last week's] news is: this is a setback and it's significant but it's not the end of the world."

We caught up with Samuelrich to find out more about how her funds choose what is sustainable and what is not, and how investor activism works.

How have you developed your evaluation methods and standards for what's sustainable and what's not?

We were founded by environmental groups and so our mission and political analyses have been baked in since the beginning. We take a little bit of a precautionary principle on industries that could be dangerous like fracking and oil. We've never invested in coal or oil because you can just tell it was going to be environmentally dangerous; you don't need a big analysis to know that.

Some of it is just based on collaborations with the 'sustainalytic' analysis that MSCI* does where they're evaluating the big risks that industries are face. And then sometimes it is brand risk. We figure out where activists are campaigning and we think there is trouble and what we want to see in the fund. And that's when we customize our analysis. So going completely and tightly fossil-fuel free was in response to the global divestment campaign in part, and what our investors were talking about and what we thought was the next step.

One of our funds had a little bit of gas in it and we had been doing [shareholder] activism and not getting anywhere and we just said 'forget it. We're not doing this anymore.'

Is there anything in the food and agriculture space that you are investing in or involved in right now?

We're avoiding factory farms, and large-scale pesticide applications, so what we're most excited about are organic lines or infrastructure that makes agricultural production more sustainable. There are some cool water irrigation systems for example. And then we, like many other sustainable investors, are invested in Whole Foods* and Starbucks* and Hain Celestial* much of the time — so the public companies that are leading in the field. Because so much of the food work is private companies, it's more of a private equity placement. And we're a '40 Act mutual fund' so they all have to be publicly traded companies.

We make as much, if not more impact through our shareholder engagement. We're part of the [Farm Animal Investment Risk & Return Initiative] (FAIRR) network and work with them really closely. The difference at the moment is that they're more of a network and we're the investor that holds the stock and can do the filings.

Having worked in the nonprofit field before on corporate campaigns, and moving over to being an investor, it is markedly different. You really are approaching it from a different place. You are really making the case to a company about why it makes sense for them to change. Companies do change in response to direct pressure as well, but it is a different conversation and you have different standing. We are not looking for the companies to do poorly; we actually believe that if they make these changes, they will be better prepared to stay competitive both short-term, but also long-term, because we think that the companies that are sustainable are better investments.

What are some of your shareholder engagement successes?

The most recent work we've done is around antibiotics. Getting Panera* to adopt a cage-free egg policy two years ago was one thing we did. Working to protect public health, we've been successfully working with Starbucks and Jack in the Box* to get them to adopt a policy and get them on the pathway to getting rid of antibiotics throughout their supply chains starting with poultry. With both of the companies, it was something that they were thinking about anyway, but having one of their investors talk to them about it and bring the issue to their attention and then ask for a reaction on a particular timeline.

What about returns? Does it pay to invest this way?

[Our funds] are real mutual funds that people use to save for their retirement. The track record speaks for itself. There are studies that say that incorporating these environmental, social and governance (ESG) factors is another really good way to evaluate companies and investments. There are even studies on investing fossil fuel-free in which you can potentially benefit from investing fossil fuel free and that's the thing we've harped on the most in terms of investment strategy at the moment.

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*As of March 31, 2017, Whole Foods Market Inc. comprised 0.00%, 0.75%, and 0.11%; Starbucks Corporation comprised 0.00%, 1.60%, and 1.34%; The Hain Celestial Group, Inc. comprised 0.00%, 0.00%, and 0.04%; Panera Bread Company comprised 0.00%, 0.74%, and 0.00%; and Jack in the Box, Inc. comprised 0.00%, 0.00%, and 0.04% of the Green Century International Index Fund, the Green Century Balanced Fund and the Green Century Equity Fund, respectively. Other securities mentioned were not held in the portfolios of any of the Green Century Funds as of March 31, 2017. References to specific securities, which will change due to ongoing management of the Funds, should not be construed as a recommendation by the Funds, their administrator, or their distributor.

You should carefully consider the Funds' investment objectives, risks, charges and expenses before investing. To obtain a Prospectus that contains this and other information about the Funds, please visit www.greencentury.com for more information, email info@greencentury.com or call 1-800-93-GREEN. Please read the Prospectus carefully before investing.

Stocks will fluctuate in response to factors that may affect a single company, industry, sector, country, region or the market as a whole and may perform worse than the market. Foreign securities are subject to additional risks such as currency fluctuations, regional economic and political conditions, differences in accounting methods, and other unique risks compared to investing in securities of U.S. issuers. Bonds are subject to risks including interest rate, credit, and inflation. The Funds' environmental criteria limit the investments available to the Funds compared to mutual funds that do not use environmental criteria.

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