



## Paul Hodgson: A changing of the guard as big firms acquire ESG pioneers?

A wave of M&A in the sustainable investment area  
by Paul Hodgson | November 23rd, 2016

The ownership of ESG firms is in flux at the moment. Calvert\* has gone to Eaton Vance,\* FOLIOfn\* is buying First Affirmative Financial Network,\* while Boston Common\* has announced not only increased employee ownership but the transfer of a minority stake to a private equity firm.

In fact, at the recent Boston Security Analysts Society (BSAS) ‘Sustainable Investing: Moving into the Mainstream’ conference, the talk was of a lot more M&A in this space, with “large firms lifting out talent and buying expertise”. We have already [looked in detail](#) at the Calvert/Eaton Vance deal. And Trillium Asset Management\* has confirmed its continuing independence and [Green Century is saying it won’t sacrifice its principles in the “ever-increasing rush of mainstream managers and funds searching for SRI and ESG offerings”](#).

But the industry is changing. One theory was that maybe the first generation of SRI funds and managers was passing the baton to the next generation.

Late last month, Boston Common announced that it has broadened ownership of the firm, welcoming 11 senior staff to join seven existing employee owners. “In total, we now have 18 employee equity owners and more than 1/2 of our employees are principals in the firm,” said founder Geeta Aiyer.

At the same time it [placed](#) a 20% stake with private equity firm Rosemount,\* with the expectation that this stake would be “retired” after a few years as Boston Common employees take on equity ownership in the firm.

Rosemont [says](#) it is focused on investing in “asset managers who face ownership dilemmas” and typically seeks to invest between \$3m-\$15m for equity stakes of 10% to 50%.

I asked Boston Common if this fitted into the 'passing the baton' hypothesis. Nancy Spady, a principal at the firm, replied: "We do not consider our latest moves a passing of the baton – we are broadening equity ownership by employees. Our founder, Geeta Aiyer, remains our largest owner and President of Boston Common. As a firm, we believe in employee ownership as this aligns the interests of the firm with those of our clients and allows us to be an independent, active voice on behalf of clients and shareowners."

Aiyer first distributed equity ownership to key individuals in 2009; two years ago, senior management began exploring opportunities to "promote two objectives: first, to further broaden ownership, without disrupting our processes or senior leadership team, and second, to create a mechanism to remain employee-owned in the coming decades." Spady said this was consistent with Aiyer's vision and the B Corporation structure it adopted in 2016.

Asked if Boston Trust\* had been approached by any buyers, Spady replied: "Ultimately the employee purchase, combined with Rosemont's minority stake, allowed us to have more control over our destiny." The move was planned well before the recent flurry of M&A.

"Employees now own 80% of the firm and Rosemont owns 20%. Our intention at this point is to repurchase the stake from Rosemont in the future and further expand employee ownership in a sustainable way."

I also spoke to Greg Vigrass, President of Folio Institutional,\* and Steve Schueth, President and Chief Marketing Officer of First Affirmative Financial Network about that acquisition. Vigrass told me: "It is a trend." I asked him why FOLIOfn had made the decision to buy First Affirmative, organisers of the SRI Conference, the former SRI in the Rockies.

"We've had a long relationship with First Affirmative, for around 13 years, helping with custody trading, business support, managing accounts, all services we provide to other clients. But we saw the growing trends and concerns with the impact and SRI investment field, with women, millennials and beyond demonstrating an increasing awareness of values, governance, sustainability.

"It's a trend dear to our heart and our values. It [the deal] was just a natural fit. All institutional shareholders are hearing the need for SRI investment options, education, solutions. First Affirmative's leadership in the field made them a good partner for us, and we can now make their products accessible to other groups using our platform and amplify their voice."

I asked Vigrass why the 'buy not build' decision had been made and he said: "We had already built the infrastructure for specialty management [such as SRI] and FOLIOfn is a financial technology company which we felt was right for the delivery of such expertise. This field is already specialized, so it made sense to buy rather than build."

Schueth said: “The SRI space is not as easy as it appears to be, there is a lot of nuance and grey areas, to figure out something that works in terms of dollars and cents but also fits the values of your clients.” Vigrass added: “The existing relationship opened the door to discussions that led to the deal. There were other opportunities, but the relationship brought a level of trust and comfort to the negotiations, understanding and familiarity with leadership.” As for voting proxies, Schueth said that First Affirmative votes shares on behalf of many of its clients, using its own proxy voting guidelines. It contracts with ISS to execute the voting of client proxies. Vigrass said that FOLIOfn provides a toolset to facilitate the implementation of proxy voting guidelines, and that other SRI firms used its platform as well.

So, as with the Calvert/Eaton Vance deal, this one looks more like a distribution issue. But the Calvert deal was also not the first such deal. Indeed, the current wave was arguably heralded by Goldman Sachs\* [purchase](#) of impact investor Imprint Capital\* last year.

William F. McCalpin, who now leads Athena Capital Advisors\* Impact Investments Team, was previously CEO of Imprint, which was founded in 2007 by John Goldstein and Taylor Jordan.

McCalpin said: “We had a relationship with Morgan Stanley\* where its private wealth advisors would refer clients interested in private impact investments to Imprint. Most of the bank-affiliated wealth management groups – Credit Suisse\*, Morgan Stanley, Goldman Sachs, Deutsche Bank\* — were looking for ways to provide solutions to clients interested in impact.

Goldman expressed interest in acquiring Imprint for its well-established team, its eight-year track record, and its network of relationships with investment managers.”

It was another buy not build decision, in other words, to increase the range of offerings to Goldman’s existing high net worth clients and to attract others who were interested only in impact investing.

McCalpin continued: “In a growing and expanding sector, this kind of [M&A] activity is typical for this phase of development. Managers that have been active in sustainable investing for some time are looking to scale up. Imprint was growing nicely, but partnering with Goldman gave the firm access to resources that would accelerate the growth process.

“Other firms may seek combinations that will give their product offerings greater visibility on established distribution platforms. We may even see roll-ups of asset managers with different sustainable investment strategies.” In short, watch this space.

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\*As of December 31, 2016, Morgan Stanley comprised 1.01%, 0.00%, and 0.00% of the Green Century Balanced Fund, Green Century Equity Fund, and Green Century International Index Fund, respectively. Other securities mentioned were not held in the portfolios of any of the Green Century Funds as of December 31, 2016. 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.

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