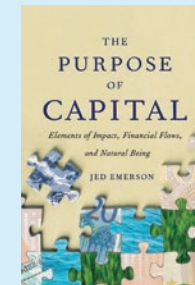


Impact With Authenticity

When William Blair began evaluating its approach to sustainable and impact investing, we sought input not only from each of our business units, but also across generations and roles within the firm. But to think through this vitally important and complex topic from all the relevant angles, we knew that we needed diverse perspectives from outside our firm as well.

That is why we invited Jed Emerson to help guide our discussion about what sustainable and impact investing means for William Blair. Jed is one of the world's most respected and innovative thinkers in impact investing, social entrepreneurship, and strategic philanthropy. Originator of the concepts of Blended Value and Total Portfolio Management, Jed has extensive experience advising funds, firms, social ventures, and foundations pursuing financial performance with social/environmental impact.

Here is an excerpt of our conversation with Jed about the challenges and opportunities financial services firms face when developing their approaches to sustainable and impact investing, and how these themes are implemented at William Blair.



Jed Emerson is the author of eight books on social entrepreneurship and impact investing. His latest, *The Purpose of Capital: Elements of Impact, Financial Flows and Personal Being*, explores the historical roots of mankind's understanding of capital, investing, and wealth management, connecting how we think about finance with how we think about our lives, world, and ultimate, personal purpose and impact.

Q. Why is it important for asset managers and other financial services providers to think about impact and sustainability issues?

Across the industry, firms are coming to grips with the limitations of a traditional approach to finance—one that defines value too narrowly by looking only at financial considerations. Whether driven by clients or internal decision-makers, firms are realizing that they aren't fully achieving the *purpose of capital*¹ if they fail to account for the social and environmental impact of their investment decisions.

It's impossible to disaggregate financial considerations from environmental and social impact because they are two sides of the same coin. One doesn't have to look any further than supply chains being disrupted by hurricanes or increasing employee turnover caused by unsustainable workforce practices to realize that "off-balance-sheet risk" has a material impact on a company's financial performance. Astute investors and their advisors are increasingly aware that impact and sustainable investing practices are central to the future of finance.

Q. What are some common mistakes that firms make when thinking about impact and sustainable investing?

With more than \$12 trillion in the United States alone invested according to sustainable, responsible, and impact (SRI) strategies, there's no denying the importance of these themes to asset managers and their clients. Unfortunately, many firms mistakenly view this as a trend—or as a marketing opportunity that can be addressed by rolling out a few new products or by acquiring a team that focuses on SRI.

Simply put: Many firms are trying to buy a seat at the table rather than doing the hard work of building their own table—one that is authentic to their culture and the way they engage clients.

1. Growing numbers of investors are interested in the practice of exploring more deeply the fundamental purpose of capital. We're pleased our senior advisor, Jed Emerson, has focused on this theme in his latest book, *The Purpose of Capital: Elements of Impact, Financial Flows and Natural Being*. We are reflecting on these themes in William Blair's work as well.

Rather than seeing it as a chance to reposition some of their offerings to capture additional assets, firms need to realize that investing with impact requires a fundamental rethinking of what it means to be a successful investor. This involves exploring challenging questions about the nature and purpose of capital, as well as rethinking how you define return and how you approach conversations with clients about performance.

Another mistake firms make is thinking that sustainable and impact investing is the purview of just one department or a dedicated team within each department. Because these issues are fundamental to the future of finance, this framework of thinking should be integrated across the firm. Other firms make the opposite mistake of thinking the company needs to have a monolithic, corporate-wide view of "what impact investing means to us." Instead, firms should realize that how these principles manifest themselves will vary by asset class and by client.

Q. Why were you excited about the opportunity to work with William Blair?

When William Blair told me about the journey it was on, it was clear the firm wasn't looking simply to latch on to best practices that other firms in the industry had started to adopt. Instead, William Blair asked me to help the firm find its own path.

William Blair was willing to do the hard work to explore the nature of the value the firm brings to clients across all of its business lines. William Blair approached the process knowing there was no playbook for how to implement impact and sustainable investing. Rather, the firm was committed to creating its own playbook in an authentic way.

Furthermore, I believe that firms like William Blair—global, privately owned boutiques focusing on fundamental investment analysis and achieving each client's definition of success over the long term—are uniquely positioned

to implement sustainable and impact investing principles at scale, and to do so with integrity.

Much of sustainable and impact investing is, at its core, a form of solid, fundamental investment analysis. But rather than analyzing just the company's financial performance, you're opening the aperture and looking at a broader set of considerations to gain a more complete picture of the risks and opportunities facing the company. Sustainable and impact investors realize a company's entire story can't be told by just the numbers that appear on financial statements, and throughout its history William Blair has been dedicated to understanding these broader stories.

Q. What were some of the most important questions William Blair needed to address at the outset of this journey?

When we began the process with the team at William Blair, one of the first questions we asked was, "How do we understand what sustainable and impact investing truly is?" Rather than using the industry-standard definition as a starting point, we set out to define it in a way that is authentic to William Blair's values and way of thinking as informed by the best industry approaches.

We then looked at the firm's current practices and policies to see how those lined up with that definition. After talking with folks across the firm, and particularly in the institutional asset management group, I was struck by how much William Blair was already incorporating sound sustainable and impact principles into its investment process. William Blair wasn't enunciating these things as being sustainable- or impact-focused initiatives per se, but it was clear that many of the elements of how William Blair goes about the business of investing resonate with a sustainable or impact approach.

The next step was to highlight these principles and think about how they could be pulled through to all of the firm's different business units and more clearly articulated in the firm's formal practices. A firm like William Blair provides a broad range of services and works with an incredibly diverse set of clients and other stakeholders, so it was important that we took an "inside-out" approach to determine how these principles should be applied in each area of the firm.

We also spent a lot of time discussing how William Blair could help its clients think through what these issues mean for them. The framework for these conversations is going to differ when you're working with an institutional investor versus an individual investor or a private foundation. From an investment banking perspective, the issues that are going to be relevant to a founder-led industrial company looking to execute a dividend recapitalization are going to be different than the issues that a venture-backed biotech company preparing for an IPO should be considering.

Q. What are the next steps for William Blair on its journey of sustainable and impact investing?

The issues that are relevant to companies from an environmental, social, and governance perspective are constantly evolving. This has been the case since investors in the Dutch East India Company, one of the first publicly traded companies, started raising concerns about its involvement in piracy in the 1600s. There's no way of knowing what new issues may materially affect a company's opportunity set and financial performance down the road. So that's why firms, like William Blair, that are truly focused on their clients' long-term success need to take a broad view and understand that a company's impact is inextricably tied to risk and return.

William Blair correctly views ESG and sustainable investing as a continuing journey, rather than an exercise that you complete once every five or 10 years. The questions William Blair has begun exploring regarding the purpose of

Q&A WITH JED EMERSON

capital and the nature of value will lead to further questions about how William Blair can best help clients achieve their desired impact across their portfolios.

The answers to these questions will vary across William Blair's business units—and evolve over time. Each unit is identifying ways that it can implement practices today that are relevant to clients and aligned with William Blair's approach to creating long-term value through that specific line of business. As William Blair and its clients continue on this journey, together they will discover new opportunities to achieve that vision. ^{WB}

“William Blair correctly views ESG and sustainable investing as a continuing journey, rather than an exercise that you complete once every five or 10 years.”

CONCLUSION

Identify the Purpose of Your Capital

At William Blair, we believe that all capital has purpose and that all capital can make an impact. Whether you invest in one of our proprietary strategies, draw insights from our equity research, work with our investment bank for capital-raising and advisory solutions, or entrust our wealth advisors with your personal capital, we are committed to delivering ideas and solutions to help you fulfill the purpose of your capital.

Whatever your vision is for your capital, we invite you to begin a dialogue with William Blair to explore ways that those values can be expressed with your capital and in all aspects of your financial life. [WB](#)

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