

Sage Advisors Bring Sustainable Investing to Clients

Austin's Sage Advisory is an investment firm on the forefront of sustainable investing—since 1998, the firm has managed exchange-traded fund tactical strategies across the equity and fixed income spectrums. They manage more than \$12 billion in institutional assets through their fixed income and ETF strategies. Their clients include insurance companies and retirement plans represented on large broker-dealer platforms including Wells Fargo, Morgan Stanley, and Merrill Lynch. In 2016, the firm turned its sights toward sustainable investing, choosing Morningstar Direct™ for its sustainability-focused investing data and research, including the Morningstar® Sustainability Rating™ for funds.



Robert G. Smith
Founder and
Chief Investment Officer



Komson Silapachai
Vice President of Research
and Portfolio Strategy

Investing in Today's World

Sage founder and Chief Investment Officer Robert Smith sees sustainable investing as a necessary approach to today's market. The underlying principles of comparing the environmental, social, and governance factors of an investment are time-tested and allow the firm to evaluate various ETFs on whether they're intentionally sustainable or not.

"Once we learned of Morningstar's Sustainability Ratings, that allowed us to survey the broad landscape of funds and ETFs in a more uniform, more concise, and precise manner with regard to ESG and

controversy events. We felt that this was appropriate for us to use in tandem with our global macro asset allocation overview," Smith said. "It marries both our sense of where we thought money should be invested from an asset allocation standpoint and from an economic and financial standpoint with a very well-balanced ESG analytical system developed by Morningstar and Sustainalytics."

Defining "Sustainable"

One of the difficulties of pursuing sustainability in the past, according to Smith, was the lack of defined parameters of what was "sustainable."

"Everyone seems to have a slightly different take over what is ESG or socially responsible or sustainable investing. How is it defined? What does it look like? The problem with that is that attempting to be flexible and broad, it becomes amorphous and ill-defined," he said. "The approach Morningstar's taking with Sustainalytics has really brought clarity in terms of defining this marketplace and how it should be evaluated on a case-by-case basis, one ETF versus another. The methodology and the application of that methodology to our way of thinking was very fruitful and allowed us to utilize our global asset allocation process in full bloom, harness the power of the analysis, and really bring something different to the clients."

Communicating Sustainability to Clients

With a well-defined concept of sustainability in place, Sage's clients have responded well to the firm's move into sustainable investing, according to Komson Silapachai, its vice president of research and portfolio strategy.

"Our clients generally had an unclear definition of what sustainability meant, which comes with the young nature of this part of the industry. So it's incumbent on us to define how we do the ESG investing," Silapachai said. "That seems to have been well-received by clients. It makes sense for us to say if companies do things that are sustainable from E, S, and G perspectives, it's going to eventually appear financially material as well. It still has to make sense financially over the long run, and that concept seems to have resonated with clients."

Smith agreed, pointing to the generational changes in investing preferences that have appeared.

“Anyone who is 50 years or younger either has a short list of preferences or is demanding that their wealth managers find all their investments through various environmental, social, or governance types of screens. The surveys are clear,” Smith said.

Building a Sustainability Workflow

When building products, Silapachai’s team constructs a portfolio that expresses top-down macro views from the firm’s investment committee. Morningstar Direct helps his team integrate ESG across the portfolio. They screen for funds that fit the committee’s criteria using the Sustainability Rating, and then deliver the report, keeping the committee abreast of current holdings and potential additions. In the future, they look to take an even more targeted approach.

“Over time, as this industry develops, we’re going to use more granular data points, such as looking at the history of data, as well as the ESG factors and controversy scores, to really isolate certain factors and customize portfolios for clients,” Silapachai said. “If there’s someone that wants to focus on a particular factor, we’ll be able to drill down into specific data points to better construct unique portfolios for particular clients or tailored strategies—whether it’s a social strategy, a particular sector, or a particular region. It’s really just deepening our monitoring of ESG factors, being able to manage those risks, and being able to report them better to our clients.”

As the market for sustainable investments continues to grow, Smith looks forward to an edge in ESG data for Sage’s clients.

“We’re still learning to make use of all of the capabilities in Morningstar Direct and to refine it to the point where it’s instrumental on a day-to-day basis,” Smith said. “Over the balance of this coming year, we’re going to find a lot of other applications that we can draw from Morningstar Direct and bring that to the benefit of our clients.” ■■

About Sage Advisory

Headquartered in Austin, Texas, Sage Advisory Services has served institutional and private clients for over 20 years, offering fixed income asset management, tactical ETF strategies, and liability-driven solutions.

More About Morningstar Direct

www.morningstar.com/company/direct

More on Sustainable Investing

www.morningstar.com/company/sustainability