

# Client Focus

## CLIENT PROFILE

The Wege Foundation:  
a leader in socially  
responsible investing

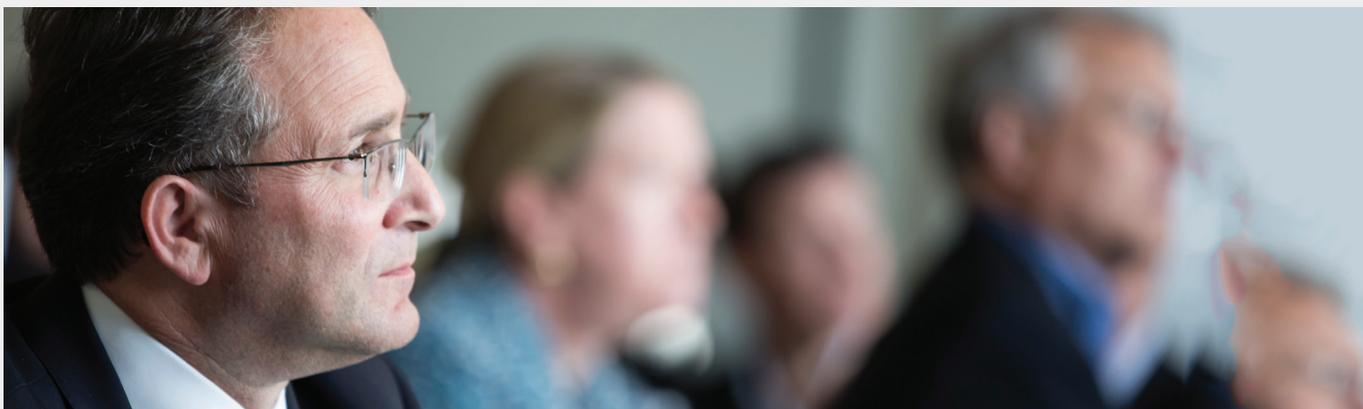
## GLOBAL MARKET OUTLOOK

Inflation and populism  
seen rising in 2017

## Sustainable Investing

The growing trend that uses environmental,  
social, and governance factors to evaluate companies





## A Year of Change

The first three months of 2017 are continuing on a path of change and uncertainty similar to what we saw in 2016.

It was a year with some of the biggest surprises in a decade—from the United Kingdom's decision to exit the European Union to the election of Donald Trump. From their initial sharp decline on election night, equity markets have bounced back to record highs in the first quarter of 2017 on hopes that healthy economic reforms lie ahead.

While the markets have welcomed the reform message on taxes, deregulation and infrastructure, no major legislation has yet been passed. So uncertainty lies ahead. At this point it is anyone's guess what legislation we will see and how the markets will react. But more importantly, we are here to stay focused on your long-term financial goals and to serve you.

Given the current political and economic outlook we have seen more investors seeking new directions for their investments. One of the most interesting trends is a rise in sustainable investing (SI).

The idea has many names—such as socially responsible investing (SRI) or environmental, social, and governance (ESG) investing. But they all boil down to getting good returns from good causes.

William Blair has long supported the concept. The firm was an early member of the United Nations–supported Principles for Responsible Investment, signing on to the initiative in 2011. This issue of *Client Focus* contains a profile of the global sustainable investment sector and an interview with the Wege Foundation—a long-time William Blair client and pioneer of ESG investing.

Many William Blair employees continue to give their time to good causes. Our most recent firmwide event was held at Randolph Elementary School in Chicago's Englewood neighborhood on January 26. More than 60 staff members took part to honor the annual Martin Luther King Jr. Day of Service with activities at the South Side school.

Looking ahead, it is sure to be a busy year for all of us. William Blair added an advisor team to its New York City office this winter, welcoming three new private wealth advisors to the firm. Our Chicago staff will be moving into new corporate headquarters at 150 North Riverside over the summer. We are excited about the move and look forward to hosting you there later this year and beyond.

Sincerely,

John Ettelson  
President and CEO

# Sustainable Investing: A Rising Profile for a Brave New World

The last decade has seen big growth in sustainable investing (SI), an approach driven by greater awareness of the role companies play in environmental and social problems—and solutions.

The trend has flourished in recent years, with many investors signing on to the United Nations–supported Principles for Responsible Investment. Additional momentum has been generated by the 2015 Paris Climate Agreement and the U.S. government’s updated guidelines stating that sustainable investment strategies meet pension fiduciary guidelines.

But investors are now asking: Will the election of Donald Trump, who has denied the existence of climate change, soften the momentum?

The jury is still out. But many analysts believe that sustainable investing (also known as environmental, social, and governance or ESG investing) has grown too strong to have investors once again evaluating securities only on dollars and cents. Yes, bottom line always matters. But SI has changed the evaluation of risk.

“We believe it is unlikely that investors will stop seeking sustainable solutions because of the Trump administration,” says Blake Pontius, a William Blair portfolio specialist focused on the integration of ESG factors in investment decisions.

“In fact, his election may actually bolster interest in ESG factors as investors seek to offset his policies,” Pontius adds.

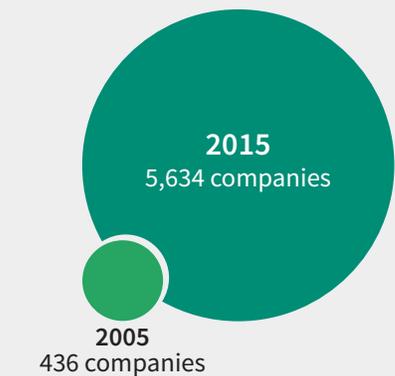
There are good reasons to support that faith. They include the global investment industry’s steady expansion to meet SI demands from investors; rising public pressure from authorities as varied as the Pope, United Nations, and global financial regulators; and the emergence of the millennial generation, many of whom hold SI as a core value.

There is little doubt that SI has taken root among investors big and small. In 2016, a total of \$8.1 trillion in U.S. assets were held by 477 institutional investors, 300 money managers, and 1,043 community investment institutions that apply ESG criteria to their investment analysis and portfolio selections, according to a survey by the US SIF Foundation, an advocate of sustainable and responsible investing.

“A diverse group of investors is seeking to achieve positive impacts through such strategies as corporate engagement or investing with an emphasis on community, sustainability or the advancement of

## Sustainable Investing on the Rise

The number of companies issuing sustainability reports have risen nearly 13-fold from 2005 to 2015.



Source: Global Reporting Initiative (GRI)

women,” Lisa Woll, US SIF’s CEO, said in the foundation’s SI report released in January.

What’s more, analysts say, great weight to ESG by managers often produces greater financial impact on a company’s bottom line. The consulting firm Mercer recently analyzed 36 academic studies that examined the link between ESG factors and the bottom line. Of those, 20 indicated a positive relationship between ESG factors and performance; only three showed a negative correlation.

“At the end of the day, there’s the ethical and moral element, then there’s the profitability,” says Pontius. “We don’t think those are in conflict.”

**Ratings negatives and positives**

Some date SI to 1758, when Quakers forbade members from any role in slave trade. But modern SI investing dates to the 1960s, with Civil Rights and anti-Vietnam War activism. Many investors began ordering their brokers to screen out stocks associated with weapons, pollution, and tobacco.

But as “green” issues, for example, grew from oil spills like Exxon Valdez to global climate change, investors moved to screen for positives, says Chris Davis of Ceres, a 25-year-old Boston-based group that champions climate risk as a priority for shareholders.

Those positives include investing in companies with environmental or energy practices to reduce their carbon footprint; efficient supply chains; and strong corporate governance, among many others. While screening for “E” and “S” factors is a more recent trend, investors have long felt the effects of poor governance. Toshiba’s \$1.9 billion accounting scandal and Volkswagen’s cheating on car emission tests are two of the most recent examples.

“Analyzing for environmental, social, and governance takes in a wider range of relevant factors as a measure of good performance,” Davis says.

**Global investing expands**

The global financial industry has responded in a big way to ESG investing, especially in Europe, Canada, and Australia.

From 2005 to 2015, the number of companies issuing sustainability reports rose nearly 13-fold from 436 to 5,634, according to the Global Reporting Initiative.

MSCI and many others operate ESG indexes to help investors benchmark to ESG performance. Morningstar and others issue specific ESG ratings for mutual funds. Research analysts are integrating sustainability and governance factors into their analysis to rate companies. Stock exchanges and others are working together to

enhance ESG reporting. A whole new array of “green bonds” has entered the fixed-income market.

SI and ESG investing also recognizes another business imperative: winning millennials. They are now coming of age as investors.

**“Millennials want to put their money where their mouth is, investing in things they care about; things they think are good,” says Davis of Ceres.**

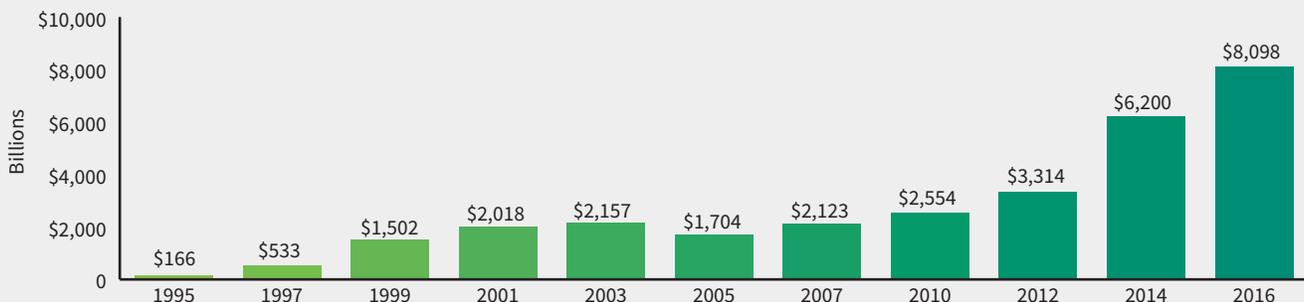
A final source of sustainable investing in the years ahead is philanthropy.

Wealthier millennials like Facebook’s Mark Zuckerberg, who donated \$100 million to Newark public schools in 2010, have already given a high profile to these values.

SIF’s Woll sees large institutional foundations like Ford, MacArthur and Kresge that advocate ESG values in their grants and money management as leading others down the same path. But small foundations will take the lead as they tend to be more nimble in making decisions.

“Over the next five years you will see more and more smaller to medium size foundations moving into this space and a smaller number of larger foundations—but you’ll see growth,” Woll says.

**Sustainable and Responsible Investing in U.S. 1995–2016**



Source: US SIF Foundation



## Global Market Watch for 2017: Inflation Rising

William Blair analysts first presented their 2017 Global Market Outlook in Chicago in November. Follow-up presentations were given in London and Zurich in February.

While 2016 will go down as a year of shocking election surprises, the primary watchword for 2017 seems clear: inflation. There may be more political shocks ahead with European elections in the coming year, but rising inflation is already with us, according to top William Blair analysts who spoke at the firm's 16th annual Global Market Outlook Forum.

Olga Bitel, chief economist for macroeconomic research, and Simon Fennell, a partner and portfolio manager for the firm's international growth strategies, shared their 2017 outlook with 400 attendees on November 30 in Chicago.

Bitel said that as the U.S. economy posted steady growth in 2016, inflation pressure returned to levels seen before the 2008–2009 financial crisis. Core services inflation as measured by the Consumer Price Index (CPI) rose an annual rate of 3.1% in December 2016, up from 2.5% a year earlier.

Adding to this pressure, Bitel said, will be wage-led inflation in 2017 if even a small amount of the \$1 trillion

infrastructure spending promised by President Donald Trump is passed by Congress. Much talked-about tax cuts and reforms for corporations will also pressure product prices higher.

In the UK, inflation pressures have been building after the Brexit shock. The pound sold off about 15% after the June referendum to leave the EU, Bitel said. Costlier imports in turn sparked companies to pass along substantial price increases, up to 20% on several consumer products.

"It is taking only a small move in inflation and bond yields to create significant ripples throughout the capital markets," Fennell said. "We believe this expansionary element will persist for some time."

The trends, he added, are giving a fundamental boost to value stocks.

### **Has globalization peaked?**

Analysts also discussed a second watchword for 2017: populism. The rising tide of protectionism is seen threatening long-standing U.S. trade agreements.

Trump promised to kill the landmark 12-nation Trans-Pacific Partnership (TPP). Little is known yet about the Trump administration's plans to "renegotiate" NAFTA. But it is clear that any trade restrictions will lead to higher prices at home.

On the export side, likely tit-for-tat retaliation by foreign trade partners as a result of U.S. changing trade terms is another potential wild card for U.S. company earnings. U.S. exports total more than \$2 trillion a year.

The timing of all these moves remains up in the air and will continue throughout 2017 in the post-Brexit world. Elections in the Netherlands (March), France (April-May), and Germany (September) all include strong populist challengers.

Amid such uncertainties, Bitel said, one thing looks certain: the fear of deflation is coming to an end and the globalization of industries and services over the last four decades may slow abruptly as politics cloud the world economy.

## Michigan Foundation Leads Way on Great Lakes, Socially Responsible Investing

For 50 years the Wege Foundation has supported the environment, education, arts and culture, human services, and healthcare.



Jody Price and Peter Wege  
The Wege Foundation

Peter Wege, whose father started office furniture manufacturer Steelcase in 1912, formed the Wege Foundation 50 years ago with an eye to benefitting his hometown of Grand Rapids, Michigan.

Wege, who lived in Grand Rapids for 94 years and died in 2014, was revered as an educator, environmentalist, and philanthropist. But in his later years he also became known as a champion of the Great Lakes through the foundation's creation of and support for the Healing Our Waters Coalition.

Today, this coalition brings together more than 100 regional groups that advocate for protecting and restoring the Great Lakes, the largest group of freshwater lakes in the world.

The Great Lakes project began in 2004 when Wege invited 70 environmentalists to Grand Rapids for a discussion about the lakes. Those talks created a multi-decade blueprint for restoration of the lakes and a unified voice over the next several years, which eventually led to the creation of the federal Great Lakes Restoration Initiative in 2010. The initiative is the largest government program for the Great Lakes in two decades, funding 2,000 of the region's environmental projects with more than \$2 billion so far.

"Peter's vision and generosity of spirit was as expansive as the Great Lakes themselves," says Cameron Davis, an environmental policy expert and

a former senior advisor with the Environmental Protection Agency, who worked with Wege on various Great Lakes projects.

"While many people to this day continue to think of 'the environment' as a special interest, Peter understood that the environment underpins everything," Davis says.

Wege's legacy of cooperation and action to improve communities continues strong today, aided by financial advisors like William Blair.

The Wege Foundation, with assets near \$300 million, is funding projects in line with Peter's greatest passions: the environment, education, arts and culture, human services, and healthcare.

The foundation has supported hundreds of initiatives over the years, including the Alliance for Great Lakes educational program, the Grand Rapids art museum and ballet, the Healing Our Waters–Great Lakes Coalition, the Land Conservancy of West Michigan, and the Kendall College student design competition, among many others.

### **A focus on SRI**

But to sustain itself, the foundation is also passionate about socially responsible investing, or SRI—putting its assets with companies that promote social, economic, and environmental stewardship to net

“We want a good return but not at the expense of having a bad social impact.”

Jody Price

not just solid financial gains but also healthy social returns.

“That’s the way a lot of foundations are going,” says Jody Price, CFO for the Wege Foundation. “If you’re spending money to clean up pollution but you’re invested in gas and oil companies, you have to ask yourself: are you really doing any good? That’s where double-bottom-line investing comes in. We want a good return but not at the expense of having a bad social impact.”

That philosophy is driving an increasing use of environmental, social, and corporate governance factors investors can use to evaluate companies. Research firms including MSCI and Morningstar provide data on thousands of company ESG strategies by analyzing government reports, company disclosures, media

stories, and other analytics to rate their sustainability and stewardship.

A portion of the Wege Foundation is managed by the Fischer Group at William Blair, an investment team led by Fred Fischer, Cam McKinney, and John Cimaroli. As part of the quarterly review of their performance, William Blair provides Price and her colleagues with a series of ESG benchmarks—using priority research and MSCI data for each company’s environmental, social and governance initiatives.

**Performance and ESG factors**

A positive correlation between good governance and stock performance has long been understood. But environmental and social factors are gaining importance as factors that affect a portfolio’s risk and return.

Price says the foundation is still trying to determine the best way to use ESG scores. But the data triggers ongoing discussion and a deeper insight into its sustainable investments.

“If Peter had the tools we have today to screen investments, he would have only invested in socially responsible investments,” Price says, citing Wege’s belief that a prosperous economy requires a healthy environment—a topic he discussed in his 1998 book, *Economicology*.

“Companies understand if they aren’t more socially responsible, environmentally responsible, people aren’t going to invest in them,” Price says.

## Wege Foundation Program Areas



### Education

City Middle/High School in Grand Rapids partners with the Wege Foundation to include the study of economics and ecology in its curriculum.



### Environment

The Great Lakes were one of Peter Wege’s greatest passions.



### Arts & Culture

The Grand Rapids Ballet is one of many community cultural programs the foundation supports.



### Health Care

Sophia’s House is part of the Mercy Health campus in Grand Rapids that allows guests to be near their loved ones while receiving care at the hospital.



### Community

The Grand Rapids Wealthy Street Theatre restoration was one of many community projects funded by the Wege Foundation.

*William Blair*

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## CLIENT SERVICE



# Reminder: Dual Tax Reporting for 2016

As a result of William Blair's transition last year to National Financial Services LLC (NFS) for custody and clearing services, you may have received two 2016 tax forms. You will need both in preparing your federal and state income tax returns.

William Blair provided reportable tax information that occurred between January 1, 2016, and the conversion date in May 2016. NFS provided 2016 tax information for the period on or after the conversion date through December 31, 2016.

Each form indicates it is for your William Blair accounts. However, each has different account numbers and may have been mailed on different days. Please use both when filing your taxes since the combined amounts represent the total reportable amount for 2016.

If you have any questions, be sure to contact your William Blair representative and/or tax advisor.

## ANNOUNCEMENT

### **On the Move: Chicago's New Headquarters**

Beginning in June, we are moving our Chicago headquarters to 150 North Riverside Plaza. Built alongside the Chicago River, our new headquarters are energy-efficient and close to transportation. The offices were designed to encourage collaboration and we look forward to meeting with you in our new space this summer and beyond.