



Glenmede: How to Credibly Bring an ESG Lens to Investing and Secure Buy-in from Analysts and Clients

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If you have built castles in the air, your work need not be lost; that is where they should be. Now put the foundations under them.

Henry David Thoreau

Amy Wilson remembers chuckling to herself about how Peter Zuleba always kept his cool, even on the hottest of days. And this summer day in 2019 sweltered; it was the sort of humid purgatory that Philadelphia, wedged between two rivers, specializes in. With the temperature touching the 90s, Zuleba ordered a hot coffee. He'd asked Wilson to join him at Gran Caffè LAquila, about a block from the offices of their firm, Glenmede Investment Management. He'd said he wanted to talk about a new assignment for Wilson— a broadening of her responsibilities. Even if he wasn't sweating, Wilson was.¹

Now, in the bustle of the Italian style café, he explained his idea. Zuleba, President of Glenmede Investment Management, wanted Wilson to become the firm's first director of ESG investing. The job would be a promotion—and a challenge. Wilson would have to lead an effort to both change the way Glenmede managed its clients' money and convince potential clients—

foundations, pension funds, wealthy families and the like—that the changes were real, not just marketing. Investing via environmental, social and governance (ESG) factors was both a trend and a hype: the trendsetters were reshaping the investment business, while the hypessters were talking up the trend but doing little to alter their operations. Wilson's work would help demonstrate that Glenmede was adding value and rigor in a world where potential clients had already become skeptical of hype.

She was eager for a challenge—with an eye to moving up at Glenmede, she'd recently begun the MBA program at the Wharton School—but also wary. She believed ESG investing was the future of the asset management business. It accounted for only about a quarter of total assets under management in the United States, but its year-over-year growth was substantial.² According to Glenmede's research, U.S. assets managed via ESG mandates had grown from \$8.7 trillion in 2016 to \$12.0 trillion in 2018.³

Professor Witold Henisz, The Wharton School, and Rachele Sampson, University of Maryland prepared this case as the basis for class discussion. The development of the case was financially supported by Analytics at Wharton via the ESG Analytics Lab. Glenmede Investment Management also provided enormous assistance through interviews, the provision of a library of supporting documents and access to planning meetings.

Some of the values and numbers presented throughout the case are disguised or should be considered approximate and may not represent actual values or costs. Statements and opinions expressed in this case are those of the authors. They do not express the opinions of the Wharton School, University of Pennsylvania or Glenmede Investment Management.

What's more, the biggest players in the investment business, BlackRock and Vanguard, had made clear that they believed in its potential. They'd begun to roll out ESG-oriented mutual funds and exchange-traded funds. Competition was heating up faster than the grills at Pat's and Geno's, two of the best-known purveyors of Philadelphia's famed cheesesteaks.

Wilson knew she'd face obstacles in leading the ESG effort. She was one of the younger analysts and portfolio management associates at Glenmede, an outfit with roots in one of Philadelphia's most storied fortunes. She'd have to persuade a crew of long-tenured investment analysts not just to change how they assessed companies but to do so in a way that would also convince the outside world of that intent. Marketing materials with pictures of sylvan forests and smiling kids would be dismissed as greenwashing. "People can sniff out greenwashing like crazy," she said.⁴ "If you don't have a clear answer to the question of why you're doing ESG integration, people can sense that it's just marketing and has no effect on your investment decision-making."

So, she'd have two audiences—one inside Glenmede of those analysts, and a much bigger one outside it of clients and potential clients. Making her task harder, she'd have to convince the analysts via Zoom meetings and phone calls, not in-person meetings. The covid-19 pandemic would coincide with her effort. "People will say things when they're hiding behind a screen that they won't say in person," she said.

A Quiet Innovator

The investment firm Wilson had joined in 2014 had long been an understated innovator. Glenmede had begun in 1956 as The Glenmede Trust Company, the trustee

and investment steward for various Pew family charitable trusts. They include the trusts that benefit the entity which today operates as The Pew Charitable Trusts, which grew out of the fortune of Joseph Pew, founder of Sun Oil Co. In the early 2000s, the trust company established a separate asset management arm, which in 2007 turned into Glenmede Investment Management, LP. The change allowed the development of products which could be invested in by clients outside of the trust company.

Though now a separate legal entity from the internationally known charitable organization The Pew Charitable Trusts, Glenmede retained some of the culture of the trusts' founders. Joseph Pew and his spouse, Mary, had taught their children, who established the trusts, that philanthropists shouldn't call attention to themselves. Glenmede likewise kept a low-profile. It kept pace with the latest developments in investing but didn't preen.

In the 2000s, for example, around the time it became a separate entity, Glenmede had implemented quantitative investment strategies. Though now common, so-called quant investing was then unusual. It entails the use of financial models, often rooted in academic research, to detect and exploit mispricing (quants call them "anomalies") in the stock and bond markets. Such quant strategies as momentum investing⁵ have become so standard that they're now offered via low-cost exchange-traded funds. But 20 years ago, quants were often dismissed by traditional Wall Streeters as dweeby dreamers with high IQs but little feel for financial markets.

Glenmede was also an early adopter of so-called liquid alternatives, such as long/short funds. For decades, hedge funds had used long/short strategies—which entail buying stocks judged as strong and shorting those judged as weak. Many money managers for foundations, a typically cautious lot, shied away, fearing the risk.

(Shorting is seen as particularly risky because potential losses are theoretically unlimited, since there's no cap on how far a stock can rise, and a short seller is betting it will fall.)

A Culture of Collaboration

When Zuleba asked Wilson to lead Glenmede's next effort at innovation —and she accepted that role — he made clear that he and the rest of the management team wouldn't bulldoze a path for her. Glenmede had a culture of consensus and collaboration. "You can tell people what to do, or you can explain why it's going to be beneficial and make them part of the solution," Zuleba said. "I'd rather have more input to ensure we have the best solution." Glenmede's analysts would know Wilson enjoyed Zuleba's support—he was, after all, their boss and hers, and she'd worked closely with him as a portfolio management associate. But she'd have to show her colleagues the benefits of ESG. Top management wouldn't issue orders.

"Our culture is very oriented toward developing buy-in," Wilson said. "I knew I'd need to run ideas by a lot of people and do a lot of behind-the-scenes work."

Her first step was to gather allies and information. She formed a Steering Group of colleagues from both Glenmede Investment Management and Glenmede Trust. Its members included staffers from the investing, marketing, and client relations teams.

A critical member was Julia Fish, who occupied a unique role at Glenmede. Fish was a vice president at the trust company and helped clients vet potential investment strategies, including those implementing an ESG-focused approach. She was able to provide insights on what Trust clients were seeking from ESG managers as well as the landscape of ESG products and remaining gaps.

In my role with Glenmede Trust, I'd spoken to dozens of investment managers attempting to implement ESG integrated strategies. Though all of them claimed success, only a handful really stood out as offering rigorous and systemized processes. These were differentiated. I hoped to break down the components of best-in-class ESG integrated strategies and bring that knowledge to Glenmede Investment Management.

Julia Fish

In particular, she helped the group understand what clients would see as greenwashing.

Together the members of the Steering Group researched and wrote a white paper on the increasing importance of ESG in the investment business. The paper, completed in April 2020, was penned in a just-the-facts fashion. But its underlying message was clear: ESG was a wave that was swelling fast, and, if Glenmede didn't start paddling, it would miss it.

Wilson and her co-authors noted that the investment public was already gravitating to ESG investment funds. They pointed to research on how the publication of ESG ratings by Morningstar, the investment analytics company, had influenced the flow of customer money into and out of mutual funds. "In the 11-month period following [Morningstar's] initial rankings, there was a clear impact to strategy flows in both directions," they wrote. "Higher rated ESG funds saw inflows, whereas low ranking funds saw outflows. This divergence highlights that, even as early as 2016, investor demand was building for investments that consider ESG criteria."⁶

The white paper also flagged the peril of adopting ESG in name only for the sake of marketing. People "will be looking for clear guidelines within the investment process,

evidence that ESG integration is being applied through examples, and even attribution reports that can quantify the impact of ESG on performance results,” the authors wrote. “Clients and consultants are increasingly wary of greenwashing.”⁷ The authors’ interviews with customers indicated that the wariness could be best addressed with “clear reporting on portfolio ESG metrics.” Only then could investment managers answer “the ‘prove it’ question differentiating weak ESG integration frameworks from strong ones.”⁸

What the report didn’t say outright was that Glenmede’s analysts would have to change the way they did their jobs if the firm was to win over wary clients and consultants. An essential task for Wilson would be persuading the analysts—showing them, to borrow Zuleba’s words, that the change would benefit Glenmede. The white paper was the first step. It provided no prescriptions, but it put everyone on notice that the market was evolving and, if Glenmede stood pat, it could be left behind.

Trying to Save the World?

Critical to the persuasion would be Wilson’s one-on-one conversations with Glenmede’s seven analysts. She knew some would be grudging in their willingness to change. “There was an age gap between many of the analysts and me,” she said. “I had the [chartered financial analyst] designation, but I hadn’t done their jobs. So there was a concern about, ‘Would they accept me and work with me?’”

Among the skeptics was Mark Livingston, a Glenmede large-cap analyst and portfolio manager. He’d started his career nearly two decades earlier, when ESG investing was in its infancy and was associated with exclusionary screens that barred certain kinds of companies from investment portfolios. “I thought it was,

‘We want to save the world,’” Livingston said. “I thought it was a political stance: You can’t own the defense companies, tobacco, or casinos. I was like, ‘Am I going to have to sell Raytheon because they sell missiles?’ I wasn’t focused on that kind of stuff. I was focused on, ‘What’s the stock price? How much do I want to pay for this? And can own it for multiple years?’”

WebEx chats with Wilson began to change Livingston’s views. But neither he nor his colleagues were ready to change their methods for researching and rating companies. Company research and building financial models took time and expertise. A typical analyst spent years cultivating industry sources—executives, suppliers, consultants—and deciding which data really mattered for determining a company’s earning power and which was irrelevant noise. Analysts like Livingston weren’t ready to start plugging ESG metrics into their models willy-nilly, but they were at least listening.

“Amy walked us through what the ESG stuff was, and I started to become educated [on that],” Livingston said. “I realized it wasn’t a political thing—it’s not, ‘You’re red [America], you’re blue.’ It’s, ‘What are the different ESG risks, and how do they impact the company?’”

Outdated views of ESG investing weren’t the only sort of resistance Wilson faced. Some younger analysts were just as skeptical but for different reasons. They’d been schooled in the efficient markets hypothesis, which taught that good investments were rare because the market capably captured information and impounded it in stock prices. With so many people touting the virtues of ESG, opportunities to find stocks with undervalued ESG merits seemed scarce.

“At first it felt like, ‘Academic research says you should do this, so you should do it,’” said Matt Shannon, a small-cap analyst and portfolio man-

ager. “The translation from the academic to investment application is where the resistance happened. If ESG is so great, why are they writing it in a paper and not putting it to work in the market? In a capitalist society, you usually don’t share your great ideas. You try to exploit them.”

Wilson heard the objections and responded with the sort of evidence Livingston, Shannon, and other analysts wanted. For example, she offered up a meta-study of hundreds of prior studies by the DWS Global Research Institute, the research arm of a leading European asset manager. That study showed that ESG performance did, on average, lead to better corporate financial performance. The DWS analysis had concluded: “Increasingly, a consensus is building among investors that the consideration of environmental and social aspects [is], per se, a signal of operational excellence.” Its authors said their survey of the prior research showed that ESG efforts enhanced both corporate reputation and operational performance, and those fed back into overall corporate performance.

Still, much of the research on ESG coincided with the bull market in tech stocks that had begun in 2009, and ESG funds tended to be relatively new and tech heavy in their holdings. So, while Shannon was reassured, he wasn’t won over. “You wonder, ‘Is this just momentum?’”

What Financial Metrics Miss

Wilson also realized she needed to present ESG not exclusively as an investment opportunity—experienced investors are skeptical of claims of can’t-miss stocks—but also as a way of identifying risks that traditional financial metrics might fail to capture. For each major sector, she needed to work with the pertinent

analyst to determine which ESG risks and opportunities mattered most (which were, in terms of the investment business, most material). Identifying three or four key risks and opportunities would be better than deluging the analysts with dozens of potential variables.

That began a series of conversations in which Wilson and the analysts tried to find common ground. She sat down with each and shared with that person the key risks and opportunities for their sector identified by MSCI. Together, she and the analyst then determined which ones they thought should matter most for Glenmede—which “could most impact the financials or the future trajectories of the companies,” she said.

“That was scary for me,” she added. “Peter was too busy to be pulled into that. But I knew he’d make us map everything again if we did something he didn’t agree with.”

Livingston, for his part, conceded he was already considering some ESG risks in his assessments of industrial firms but hadn’t thought of his process that way. Nearly every company he covered, for example, was producing substantial greenhouse gas emissions, if not directly then at least through its sourcing and delivery operations. And companies had begun to care about their emissions and other environmental impacts because their stakeholders did. “There’s enough money behind ESG that people are changing their practices,” he said. “It doesn’t matter whether I want ESG or not.”

Still, an admission that something could matter and a willingness to change long-held habits and routines weren’t the same. Even as the analysts admitted that ESG risks might matter, they continued to resist changing how they did their jobs.

“They’d be like, ‘You’re giving me all this additional work,’” Wilson recalled. “Then, other times, they’d say, ‘We already do some of this.’ And I’d think, ‘If you’re already doing this, it can’t be that much more work.’ At one point, one of them said, ‘You’re asking me to go down all these rabbit holes to see what’s relevant.’ And my perspective was, ‘Isn’t that job of a fundamental analyst?’”

Wilson found herself growing frustrated and sought out Zuleba’s advice. His response gave little comfort: “He pointed out that analysts are paid to be skeptics.”

Zuleba, who’d started his career in the ’80s, was a contemporary of the more senior analysts. He understood better than Wilson just how disruptive the changes felt to them. “Analysts who’d been doing things a set way for their whole careers, we were throwing them a nasty curveball, asking them think about these new issues,” he said.

His implicit message to Wilson: She’d have to keep working to bring the analysts around.

A Test Case

Glenmede’s investment in Boeing Co. would turn out to be serendipity in Wilson’s effort and a test of how ESG research might improve Glenmede’s assessments of stocks. Glenmede, like many investment managers, owned Boeing partly because of the aircraft maker’s commanding position in the civilian and defense aeronautics businesses. But after decades of operating as one of the world’s leading plane producers, the company stumbled into crisis in 2018 and 2019.

The latest version of the 737—its workhorse—had to be grounded for about 22 months after two crashes that killed 346 people. Investigations

traced the crashes to design flaws that enabled malfunctioning software to wrest control of the plane from pilots and send it into a nosedive. During development, Boeing personnel had become aware of the problem, but, in the push to bring the so-called 737 Max to market, the company “failed to inform pilots about the new software and pressured the FAA to remove mention” of it from the plane’s training manual.¹⁰

The crashes and the accompanying scandal over managerial lapses revealed a company where executives had come to privilege the stock price over passenger safety. “The saga has shattered Boeing’s once-sterling reputation,” said a writer for *The New York Times*. “As an avalanche of investigations and reporting over the past 20 months made clear, the true cause of the crashes wasn’t faulty software. It was a corporate culture gone horribly wrong.”¹¹

Put differently, the company’s governance—the G in ESG—had failed. Executives had lost their way, and the board of directors had proved unwilling or ill-equipped to respond. Those failures redounded to shareholders, with Boeing reporting losses in 2019 and 2020 and the stock losing approximately 50 percent of its value in 2020.

The question confronting Glenmede was whether Boeing’s problems had been foreseeable. Glenmede’s analysts and portfolio managers debated that—which made real how ESG analysis could change how someone viewed even a company like Boeing with a strong, durable competitive advantage. Wilson recalled that the analyst who covered Boeing “was presenting about the risks of the company, and Peter was pushing back, asking if having these risks identified through an ESG lens would have pushed the team to sell out sooner and avoid losses.”

“That one left a dent,” Zuleba added. “If we’d been deeper into the [ESG] process, I’m hopeful that we would’ve at least debated it more deeply.”

If Boeing underscored that ESG risks could be material, it didn’t do anything to show how Glenmede’s analysts should change their processes for researching companies and documenting their findings. Yet Wilson came to view documentation as key: it was the only way to show people outside of Glenmede that the firm was taking ESG seriously. The analysts needed to explain, in writing, their views on ESG issues and highlight the ESG metrics they considered most pertinent to their recommendations.

“I was trying to find the sweet spot where they’re authentically incorporating ESG into their analyses versus just writing a few comments and moving on with their day,” Wilson said. “I thought we needed a template. But that felt prescriptive, and the analysts resisted that. They viewed it as busy work.”

Exposing Soft Underbellies

More writing not only meant more work, it also opened up the analysts to criticism and second guessing. Wilson didn’t appreciate that at first, but Zuleba did. Analysts “know how to build a [discounted cash flow] model and understand a business algorithm,” he said. “Do they really understand the environmental issues? With the documentation, they were exposing their soft underbellies.”

Written reports would create accountability, making explicit how or if ESG analyses led to buy and sell recommendations. When the next Boeing-like debacle arose, as one inevitably would, someone could be asked to explain a recommendation that had failed to note a critical ESG risk. “We need to be able to track

the process and the results and how that feeds back into the fundamental research,” Wilson said.

As Wilson’s views about the importance of documentation crystallized, the Steering Group, in October 2020, produced another report. This was one that was more prescriptive than the first; after six months of conversations and information gathering, the authors had reached conclusions about how Glenmede—and its especially its analysts—should proceed. On the very first page, they called out the importance of “consistent and repeatable documentation.” Throughout the report, the Steering Group elaborated on what that should entail. This time, the committee’s voice was declarative, not merely descriptive.

“The portfolio manager or analyst should record the results of their research in an ‘ESG Research Note,’ which will be saved and recorded for the reference of the analyst and other team members,” the report said. “The ‘ESG Research Note’ should be in an agreed-upon template that can be utilized consistently across products and companies.”

In other words, analysts would have to separately write up their ESG analyses and couldn’t just claim they’d incorporated ESG considerations into their overall analysis, and they’d have to adhere to a template to ensure consistency across analysts and comparability of reports over time. They’d have to, in other words, expose their soft underbellies.

The report also noted that, in just six months, the case for integrating ESG into Glenmede’s investment processes had strengthened. “Additional studies have explored specific fund performance using Morningstar’s taxonomy of Sustainable Funds and concluded that across both equity and fixed-income strategies, a robust incorporation of ESG data led to higher Sharpe

ratios, with lower volatility and reduced drawdown, versus traditional peer counterparts,” the authors wrote.¹²

Would Clients Be Convinced?

While the report conveyed certitude, Wilson remained unsure about how much progress Glenmede had really made. As 2020 drew to a close, she knew that much work remained to be done; the effort to fully integrate ESG into Glenmede’s processes was incomplete. Even the debate over documentation wasn’t really settled. Take the template for ESG reports recommended by the Steering Group. While it would ensure a level of standardization, it also could enable analysts to take a check-the-boxes approach to their ESG analyses without delving deeply into the implications of risks that often remained hard to quantify.

On top of this, senior management hadn’t yet committed to how the analysts’ continued compliance with the new ESG policies would be monitored or how they’d be compensated for their additional ESG work. All of this made Wilson continue to worry about that accusation of greenwashing: she was confident Glenmede was embracing ESG in its investment processes but not at all sure clients and potential clients would be convinced.

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ABOUT THE: *ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INITIATIVE*

The Environmental, Social and Governance Initiative conducts academically rigorous and practically relevant research with industry partners and across all Wharton departments that investigates when, where, and how ESG factors impact business value. Informed by research, we offer 30+ courses that MBA and undergraduate students can assemble into a major or concentration, over a dozen co-curricular experiences, and three Executive certificate programs. Led by Vice Dean Witold Henisz, the ESG Initiative advances Wharton’s best-in-class education of current and future leaders, enabling them to serve a world undergoing tremendous change.



ENDNOTES

¹The timing of several events in the case was changed for the sake of the narrative and its brevity. However, all information in the case is otherwise factual, based on interviews with the principals or previously published information.

²US SIF, Report on Sustainable, Responsible and Impact US Investing Trends 2018, p. 1.

³Glenmede Investment Management, ESG Integration Industry & Research Analysis, April 2020, p. 8.

⁴All quotations from people at Glenmede Investment Management are taken from the authors' interviews with the quoted principals.

⁵Momentum investors aim to spot stocks that are rising, buy and hold them for several months and then sell them as they peak. The strategy is based on the fact, documented by researchers, that stocks that have recently risen tend to continue to rise. For more information on momentum, see <https://anderson-review.ucla.edu/momentum>.

⁶Glenmede, ESG Integration Industry & Research Analysis, April 2020, p. 6.

⁷Glenmede, p. 13.

⁸Glenmede, p. 21.

⁹DWS Global Research Institute, "Digging Deeper into the ESG-Corporate Financial Performance Relationship," 2018, p. 11.

¹⁰David Gelles, "Boeing's 737 Max is a Saga of Capitalism Gone Awry," *The New York Times*. Nov. 24, 2020. <https://www.nytimes.com/2020/11/24/sunday-review/boeing-737-max.html>

¹¹Gelles, *The New York Times*. Nov. 24, 2020.

¹²Glenmede, ESG Integration Initiative Review & Recommendation, October 2020, p. 6.