DOL “delouses” socially responsible investments

By Kerry Pechter *Fri, Oct 23, 2015*

Economically-targeted investments, including socially-responsible mutual funds and "green bonds," can be offered in ERISA-regulated retirement plans if they offer competitive return expectations and no unusual risk, Labor Secretary Tom Perez said Thursday.

“Economically targeted investments” no longer “have cooties,” Secretary of Labor Thomas Perez announced during a press conference yesterday in an ornate inner chamber of the Alexander Hamilton U.S. Customs House in downtown Manhattan, a block from the bronze “Bowling Green bull” that stands for a booming stock market.

By that, the Secretary meant that the Department of Labor has reversed its position that for the last seven years has discouraged defined benefit plans from holding, and defined contribution plans from offering investments, “socially responsible” investments. The position was based on the idea that these investments too often sacrificed return for ethical purity.

But a new interpretive ruling from the DOL ruling removes “the cloud” over such investments, opening the way for retirement plans and their participants to invest in such securities as “green” bonds and mutual funds that includes stocks of companies engaged in socially beneficial activities, as long as those choices don’t violate the fiduciary obligation “not to accept lower expected returns or take on greater risks in order to secure collateral [non-financial] benefits.”

[At the press conference, Secretary Perez was asked to respond to public charges by Raymond James CEO Paul Reilly that the Department of Labor doesn’t understand the securities business, or how much damage the DOL’s still-pending “conflicts of interest” or “fiduciary” proposal, would harm the broker-dealer industry. Perez cited the long comment period on the proposal and the competence of his chief advisor on the industry, Judy Mares, as evidence that the DOL had done its homework. The rule, in its current form, could disrupt the current brokerage advisory model, where intermediaries freely mix objective investment advice with sales recommendations from which they profit.]

Among the beneficiaries of the change on ETIs will be Morgan Stanley, a leading underwrite of green bonds. Last June 8, Morgan Stanley issued a $500 million green bond to raise funds “for the development of renewable energy and energy efficiency projects which are anticipated, once fully completed, to help avoid and reduce greenhouse gas emissions.”

Audrey Choi, CEO of Morgan Stanley’s Institute for Sustainable Investing, and Lisa Woll, chairman of The Forum for Sustainable and Responsible Investing, of which Morgan Stanley is one of scores of member, were present at the press conference, as were Matthew Patsky of Trillium Asset Management, which specializes in socially responsible investing, and Bill Dempsey, CFO of the $2 billion Service Employees International Union.

In the past, the DOL’s ambivalence toward ETIs arose in part from the fact that socially responsible mutual funds often passed up higher returns when they avoided “sin stocks” such as those issued by, for instance, highly profitable tobacco and alcohol companies.

But since 2008, when the DOL last ruled on the issue, there’s been an explosion in investments that seek high profits in the environmental and infrastructure fields that can be categorize as “economically targeted.” The 77 million-member Millennial generation has shown strong interest in such investments, and they are expected to drive demand for ETIs as they enter the workforce and being saving through ERISA plans.

“The issue is return,” Secretary Perez said, adding that “If a socially responsible investment has a proven track record” there’s no reason for fiduciaries to be “gun shy” about including it in an ERISA plan. He said there’s been “an explosion of interest” in ETIs since 2008, especially among Millennials who are now coming of age.