



Domini

WAKING THE SLEEPING GIANT

How institutional investors can create well-being along with wealth. **By Amy Domini**

IN 1929, WHEN THE U.S. STOCK MARKET CRASHED, LESS THAN 10 PERCENT OF AMERICAN families owned stock. Today, despite the increasing gap between rich and poor, roughly 50 percent of American families are stockholders. In Europe, and around the world as well, stock ownership is being democratized. Millions of ordinary people are now “in the market.” But relatively few of those new stockholders actually own company shares directly. Far more invest through intermediaries. They may invest in mutual funds, or their employers may invest in pension funds on their behalf.

In all these cases, an individual's money becomes part of a vast pool of assets, made up of mutual funds, pension funds, public endowments, ETFs or unit trusts. In a similar way, non-profit organizations pool small donations from thousands of individual donors and invest them in charitable trusts, foundation funds and university endowments.

The institutional investors that regulate these asset pools are giants—controlling assets that range from hundreds of millions to many billions of dollars. Regular people own the assets, but institutions do the investing.

Meanwhile, the financial markets have been changing in other ways—notably by becoming single-mindedly focused on short-term profit. Risk has been redefined as little more than the risk of missing next quarter's earnings. But in the pursuit of near-term profits, corporations overlook many types of risk that don't appear on an income statement: the risk when corporations exploit workers, poison the land and water, contribute to climate change, produce unsafe products.

Many enlightened investors have come to understand these risks, and have elected to invest in a way that takes justice, sustainability and the well-being of future generations into account. But there is a sleeping giant in all of this, one that can drive change on a much larger scale. That sleeping giant is the institutional investor.

Institutions typically invest on such a large scale that they must diversify very broadly. They own such a dizzying variety

of securities—virtually everything, in fact—that the largest have come to be called “universal” investors. They are generally designed to be permanent, self-perpetuating institutions, so it makes little sense for them to focus, as the market's dominant culture dictates, on the short-term profits of individual companies.

Owning everything, and investing on a very long-term horizon, gives the idea that institutions should be thinking about the overall economic health and well-being of the society in which they're invested—because that's what they really own.

Some institutional investors have begun to recognize this broader set of responsibilities and risks. Initiatives like the Institutional Investors Group on Climate Change, representing assets of nearly \$4 trillion, and the UN's Principles for Responsible Investment—with signatories representing assets of more than \$10 trillion—show that institutions are beginning to take environmental and social factors seriously in their investment decisions. They're becoming more active participants in the companies they own.

The sleeping giant is beginning to stir, but we must wake him up and put him to work. The vast sums controlled by institutional investors are ours, and their great power is ours. It is up to us to tell these monoliths that we care about our well-being and about the future as much as about our wealth. We need to tell them to send this message to the companies we own.

It's getting late, there's much to be done and we can't afford to let that giant stay in bed all day.

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