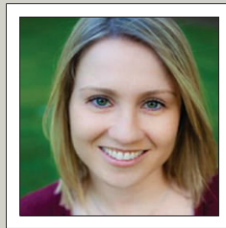
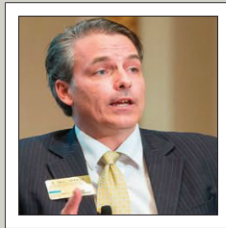


Engaging Employees via Sustainable 401(k) Investing

Rating sustainability of individual retirement holdings

By R. Paul Herman, Yelena Danziger
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Every time you drink one liter of Coca-Cola, you consume 2.12 liters of water—if you account for Coke's production process. That ratio is more water-efficient than a beer, but it's still more than double what you may expect. To ensure its long-term sustainability, global beverage leader Coca-Cola has committed to improving its water efficiency and, by 2010, replenishing 100 percent of the water used in its retail products. At year-end 2012, Coca-Cola has reduced water intensity 21 percent since 2004.

How could Coca-Cola more deeply focus all of its 130,600 employees towards an even faster reduction in water usage? By showing its 68,000 participants in Coke's 401(k) plan the water-efficiency ratios in their own investment portfolios. Coca-Cola's 401(k) is used by about 91 percent of its 75,000 US staff. Thus, communicating and educating all 401(k) participants on their personal 401(k) portfolio's water-efficiency could be a very effective engagement approach for realizing its sustainability goals.

One of the first 401(k) plans to rate the sustainability of its participants' holdings is a 190-person CPA firm, Kahn Litwin Renza (KLR), one of the largest accounting and business-consulting firm in New England and one of the top 100 nationally. Mike Tousignant, one of KLR's senior partners, saw rating the 401(k) for its sustainability as a learning tool about potential risks and opportunities in financial value that are typically classified as intangibles on the balance sheet. For example, employee "assets" (or human-capital) are not even classified as a balance-sheet asset, but as an expense on the income statement. Yet a company could not run without this important asset, as many CEOs claim.

Joy Pettirossi-Poland, an advisor to CPA firms and investment advisors (like KLR and LPL's Corner Office Financial), introduced this approach, based on the More Value + Profit (MVP) program she founded. "Sustainability factors drive value for shareholders,

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but many times are invisible to investors, advisors and 401(k) participants," Poland says. "Rating your 401(k) for sustainability reveals which funds hold leading companies that pursue value created from human, social and environmental capital, and which funds hold laggards that ignore this untapped value and future risk. Rating portfolios for sustainability is very empowering for younger employees in their 20s and 30s," Poland observes, "and boosts employee engagement, which can spur more productivity and profit."

For most Americans, the majority of retirement income will come from 401(k) balances, IRAs and Social Security. Three in four full-time workers in the US have access to a 401(k), according to BLS. More than 52 million workers participate across 515,000 plans, equaling an

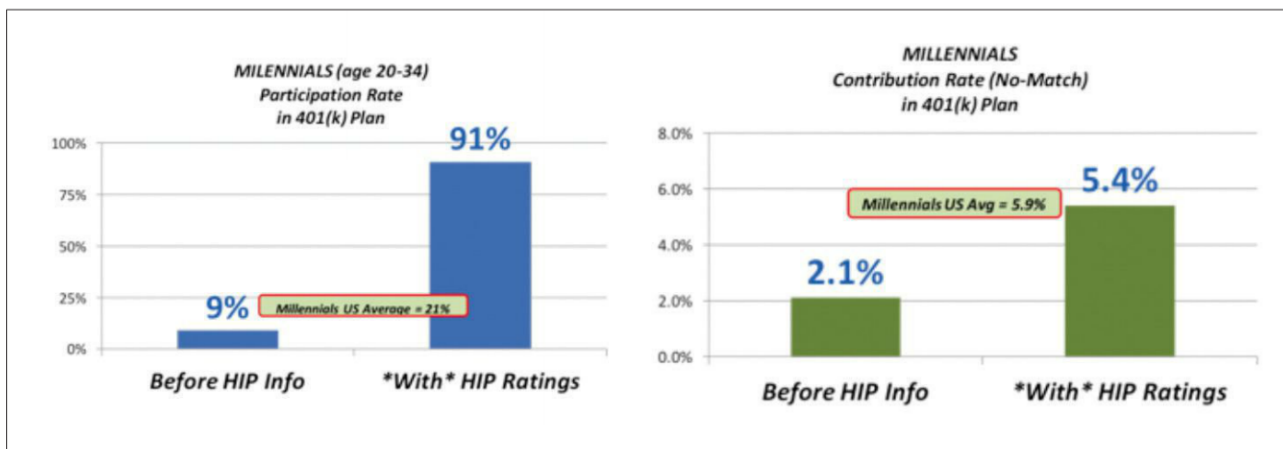
estimated \$6 trillion in assets. Introducing workers to sustainability via their 401(k) plans can focus attention on the risks and opportunities related to these factors – including water, energy, employee retention, customer satisfaction and legal exposure – in their own fund choices and portfolios.

“The US Dept. of Labor, which governs 401(k) plans, does not acknowledge this non-financial information for selecting 401(k) choices,” says Jim Frazin, an investment adviser at Communitas Financial Planning, which advises on 401(k) plans. “This rule can make it difficult to incorporate a wide range of socially-responsible investments. However, the trustees and fiduciaries of the plan at the company can choose to provide this information to their participant-employees.”

Communitas has brought fund ratings from our firm, HIP Investor, to show the sustainability of all funds in a plan to employees seeking it out. “Increasing retirement savings by engaging employees in their 401(k) plans may bolster employees financial security,” says his business partner at Communitas, Ian McLeod, “as well as benefit companies that are doing right by society, and advance the company’s own long-term sustainability strategy.”

As an example, Environmental Building Strategies (EBS), a sustainability consulting firm in San Francisco, bolstered participation rates from 14 percent of team members to 93 percent by adding sustainability ratings to its 401(k) fund choices. Among Millennial team members at EBS, the participation rate shot up from 9 percent to 91 percent. “Our team members wanted to know where their money was going, and that it was going to be put to good use” says Burke Pemberton, Controller at EBS. The amounts employees dedicated to their 401(k) dramatically increased, from a weighted-average of 1.6 percent to 5.1 percent of salaries overall, and from 2.1 percent to 5.4 percent for Millennials.

EBS’s mission is to help its Real Estate clients improve the value of buildings through sustainable and economically beneficial solutions. Impact ratings on the 401(k), like those provided by HIP, aligns with EBS’s sustainability and finance values, which has directly encouraged engagement across the team. “We have gained deeper team engagement by aligning our company retirement investment offering with EBS’s core organizational principle of generating better financial return through sustainability and impact,” says Pemberton. EBS’s co-founder and Principal Matt Macko agrees, “We built this company on the principles of progressive action within the sustainability industry, and this is a tangible way to



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demonstrate authenticity to our staff, and to society.”

According to *Forbes*, by 2025, Millennials will make up 75 percent of the global workforce, which makes engagement of this demographic crucially important for business. In addition, a Deloitte survey of Millennials published in January, 2013 revealed that Millennials believe the primary purpose of business is to “improve society,” rating above “making profit.” When asked about measuring the success of business, 70 percent of Millennials cited employee satisfaction and retention as the preeminent factor. The national average for Millennial participation in 401(k) plans is a mere 21 percent, which presents a new opportunity to engage Millennials in retirement planning that creates a net benefit for society – dubbed the “impact generation”

by *Forbes* – and move beyond passive participation in 401(k) plans that do not necessarily align with their values.

Overlaying ratings of sustainability and impact onto 401(k) plan fund choices creates meaningful insights. Mercer Consulting provides ratings of 5,172 fund managers as part of its due diligence on which fund strategies incorporate environmental, social and governance (ESG) into its investment approach. Our firm, HIP Investor, is typically able to rate all funds in a 401(k) plan, and examine the underlying stocks and bonds held across multiple types of funds. BrightScope's ratings of 401(k) plans show if a company is excellent, average or lagging, from fees to participation. HR intermediaries such as Insperty, ADP TotalSource, TriNet and Zenefits, which all serve growth businesses, could use the ratings as a tool for deeper engagement and potential productivity. Companies like KLR and EBS have created deeper conversations among employees how to invest. Investment advisers like Communitas are able to show how portfolio choices can reflect the mission of the organization.

How engaged are your employees on sustainability? By activating your staff's desire to add more sustainability to your business, your 401(k) plan could be a new tool in achieving sustainability goals – like Coca-Cola's water efficiency – that also can benefit the bottom-line. For most American workers, 401(k) plans are a major element of their retirement future, yet also present an opportunity for all firms to build a better world, more effectively educate their staff on sustainability, and more deeply engage employees by revealing the sustainability of their own long-term portfolios. **CR**

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