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Sustainable Finance Goes to Business School

New classes teach students how to evaluate a company based on ESG performance, as well as how to finance green businesses

Business schools are doing more to teach sustainable investing. These Haas School of Business students in Berkeley, Calif., run the Haas Socially Responsible Investment Fund. PHOTO: JIM BLOCK

By Dieter Holger

June 10, 2019 10:12 p.m. ET

Sustainable finance and investing are taking off—and the world's top business schools are climbing on board.

In classes, students learn how to evaluate a company based on its environmental, social and governance, or ESG, performance. Among the factors they review: greenhouse-gas emissions, supply-chain transparency, gender diversity and the treatment of workers. In other classes, students learn how to make investments in private for-profit enterprises with social missions or how to finance green businesses.

The movement on campuses mirrors the sustainable-investing trend rippling through the financial industry. In the U.S., professionally managed assets invested sustainably accounted for at least 26% of the market as of 2018, up from 18% in 2014, according to the Global Sustainable Investing Alliance.

Meanwhile, the majority of classes focused on sustainable finance and investing at the top 25 global business schools were launched in the past five years. That is according to a Wall Street Journal analysis of 2018 postgraduate programs in QS World University Rankings, an annual publication of school rankings.

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"This is going to be the future of the finance industry, backed by popular demand, especially from the generation coming in that is going to inherit the vast majority of the wealth," says Jana Hock, a 22-year-old master of international finance student at HEC Paris who helped develop an online course in sustainable finance for the international business school.

She says young investors who want to "create a world we would all like to retire in" will push sustainable finance into the mainstream. "When I realized that finance can be a tool to create that world, for me that was simply a no-brainer."

Ms. Hock says she will intern this summer at Morgan Stanley 's sustainable-investing arm, and she has already started her own impact-investing venture, Esgarbor, with support from HEC Paris. "I really want this to go forward, to grow to be the mainstream type of investing," she says. "And I see that it resonates especially with millennials."

Getting involved

Some schools aren't just offering classes—they're giving students hands-on experience. Launched as a class in 2007, students at the University of California at Berkeley's Haas School of Business have managed the Haas Socially Responsible Investment Fund, which invests in public companies with strong ESG performance to make a positive social impact and earn financial returns.

Before working at the fund, students take classes in asset management and socially responsible investing so they are ready to dive into the fundamentals of a company's environmental performance, labor practices and supply-chain management, says Adair Morse, associate professor at the Haas School of Business. Ms. Morse says interest from students in sustainability continues to pick up due to more career opportunities, and they are now more interested than ever in using finance to solve specific problems like climate change.

This spring, New York University's Stern School of Business launched an ESG fund as part of the Michael Price Student Investment Fund family, which began investing in 2000. The six Stern M.B.A. students managing the fund choose companies using ESG scores from data providers and conducting their own independent analysis of the businesses.

The Michael Price Student Investment Fund replaced its small-cap team with an ESG fund to better reflect the current trends in investing, says Anthony Marciano, a professor at the Stern School of Business who oversees the students who manage the fund. "It is an exciting area with substantial growth," he says.

NYU's business, public-service and law schools also teamed up in 2017 to launch the New York University Impact Investment Fund, which invests in private social enterprises that students propose. Stern's impact-investing classes have been useful, but there is no substitute for the hands-on learning the fund offers, says Gabriel Ng, a 30-year-old who graduated this May with a dual M.B.A. and M.P.A. degree and worked at the fund as the Student Advisory Board president.

"It's a ton of work," Mr. Ng says, "but this is really the best way to actually learn how a deal goes from sourcing all the way to money moving."

Even schools with fewer courses dedicated to sustainable finance are weaving the principles of sustainability across their curriculum. For instance, Harvard Business School, which introduced its first and only class focused on ESG and impact investing in the 2016 academic year, started incorporating sustainable finance at some level into its finance courses 10 years ago, says Matt Segneri, director of the social-enterprise initiative at Harvard.

What's more, Harvard's Investing for Impact Club launched last year, and thanks to student interest, the school is actively exploring a student-led fund, Mr. Segneri says.

Going professional

But students who want to take their skills into the job market may face an uphill climb. Demand for sustainable investing is picking up, but entry-level jobs in the field aren't so easy to come by, says Catherine Phelps, a 27-year-old M.B.A. student at London Business School, who was a co-organizer of the university's Invest for Good Conference in March.

"Even to get an internship at an impact investor—a tiny boutique impact investor—you have to basically have worked at an investment bank," Ms. Phelps says.

Bank of America , whose wealth-management arm has offered impact investing since 2013, doesn't yet have any internships specifically dedicated to the field, but interns do learn about impact investing during the program. It also teamed up with the University of Pennsylvania's Wharton School of Business this year to host its first impact-investing challenge, where students were tasked with designing portfolios.

Graduates armed with the knowledge of impact investing will find themselves better prepared to be financial advisers, says Jackie VanderBrug, head of sustainable and impact-investing strategy at Bank of America. "We are seeing growing client demand, as well as increasingly sophisticated impact-investing products," she says.

Some wealth managers are offering internships in the field, but there is a lot of competition for the open spots. More than a decade ago, Morgan Stanley started incorporating sustainable investing across the firm, and created a sustainable-investing fellowship six years ago. There were more than 1,200 applications last year.

"Building out opportunities for students to develop these skills is critical to support the continued growth of this important industry," says Audrey Choi, chief sustainability and marketing officer at Morgan Stanley.

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Appeared in the June 11, 2019, print edition as 'ESG Heads To B-School.'

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