Josh Levin of OpenInvest Joins Us to Discuss Sustainable Finance

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Dave

0:00

Alright, folks, welcome to Investing for Beginners Podcast. Today we have a special guest with us; we have Joshua Levin, who is the co-founder and chief strategy officer at OpenInvest. And he's here to talk to us about ESG and other kinds of fun stuff. So, Josh, I wanted to thank you for taking the time out of your busy day to come to talk to us. We're really looking forward to our conversation today. And I guess I'm curious, how did you get into sustainable finance? Like, how did you get involved? What is sustainable finance? For those out there that are not familiar with this term?

Josh

0:30

Well, thanks, Dave. Thanks, Andrew, for having me here. I'm excited about the conversation. I've been in the space for about 15 years. So working the clock backward. I'm now at JP Morgan, which acquired our startup open invest a year ago; we started openly investing in 2015 and 2016. And then, for about six years prior to that, I was at the World Wildlife Fund, The panda, where they had the novel concept of engaging with banks and working on ESG integration to try to make the world a better place. And that, for me, is what sustainable finance is really all about. There are lots of different people from lots of different angles.

For me, it's actually how we use to finance and capital as a lever to improve the world. So the economy is a big place. And there are a lot of problems in the world, I think. And you can either try to educate a billion people, you can work with 200 million businesses, but the whole economy is funneling through a couple of key frameworks. One is government and regulation. And the other is finance and Wall Street.

And often, regulation lags by about 20 years, God bless all the people working on that side of it, but I want to be able to move fast. And so, if you can shape the practices and products, and experiences that banks offer their clients, you can even make a small inflection, and how capital is allocated can have a platform-level effect on the whole economy. And for me, that's the appeal. It's mainstreaming; it's how we change the rails of capital and, in so doing, provide better solutions to clients; you won't succeed if you don't do that. And so that's what we do at open invest. We are an ESG technology player; all we build is tools and technologies to revolutionize and mainstream values-based investing. And it's been a great experience. And there's a lot more to come.

Andrew
2:21
That's very interesting, Joshua, and very admirable. Was there something in your life that happened that kind of plant this seed into thinking about all of this? Did you just grow up knowing, hey, I want to change the world? Or was it something that happened in your life? Can you like, take us back,

Josh
2:37
I've always been very into nature; I, according to my parents, would starting at three years old, just go off; I grew up in rural New Jersey, which is a real place they exist. It's not just the Jersey Shore Turnpike. And I would start at an early age, go out in the woods and play make-believe we're never by myself. And I just would have what I would call meditative experiences, like the real feeling of larger systems, you know, you just lie back, and you look at the tree canopy, and you start to feel the symphony of everything going on a kind of centering thing. And that has always been a kind of grounding place for me mentally, my whole life. So as I came out of college and beyond to try to figure out what to do with my life, we'll come back to that and say, How could I make the world better? H

How can I help protect the planet, but I got into the environmental movement and various organizations, and I actually, right after college, I went to work in Cambodia. And I helped to track tigers and elephants and sun bears, and other animals on the Cambodian Thai border. So I work as in direct conservation as you get in the jungle. It was an incredible experience. But I quickly learned that most people in the environmental movement at a high level are scientists, biologists, and water experts, and that's just not my forte; it's not my strong suit. So I was going to be more on the operational strategy management side of this. And so ironically, I went to business school, I went to NYU Stern, there was a private sector stint in between, and then I went to business school to transition back from the private sector into nonprofit leadership. This is kind of the other way for a lot of people.

And I started at a finance school, as you might know, it's oriented towards that. So that kind of pointed me into sustainable finance. And I realized, wow, you can either work on a kind of individual sector or an individual company. But when you work in the financial sector, as I said, you can have a platform-level effect on 1000s of companies. So that's kind of the progression for me in a nutshell. No one's ever asked me that before. Think for a moment.

Dave
4:37
That's pretty cool. And well, I can't imagine going from Cambodia, Laos, to New York City. You know, the headspin of the change of environments would be kind of mind-boggling, but so NYU Stern is the headquarters of one of my mechas. Professor Aswath Damodaran is like I had a bit. Oh, you had him. Okay,

so that's I've worked through his videos, I don't know, three or four times his, you know, valuation series in, oh my gosh, the guy's amazing. He's one of my heroes. So how hard was that

Josh

5:09

STEM is challenging, you know, I went to Harvard undergrad, but I would say that Stern was actually more challenging for me; Harvard was like, I found my elbow was just a place full of intellectually excited and curious people where you could explore ideas and swing them around. And it was tons of fun. NYU, I found it was people whose strategy was they could grind. These were people from very different backgrounds, from who I went to undergrad with, who would just hit the books hit him hard.

And so as you get into things like accounting, and valuation and corporate management, like it's a lot more quantitative, and that's where I started to feel like, wow, it's hard for me to keep up sometimes. So it's, it was, which was great. I mean, I made great friends. And it was a great learning experience for me. I had a good time.

Dave

5:56

That's awesome. So I guess how did you segue all that into what you're doing now? Like, how did you? Was it all kind of a basis for getting into working with sustainable finance, your experiences, working in the wild? And then also with your background and finance? Now, it seems like you're kind of set to really kind of take that challenge on.

Josh

6:16

Yeah, so World Wildlife Fund, we were flying; my group was kind of a startup, like within the World Wildlife Fund, where they had a lot of legacy relationships around the world, fundraising for financial institutions, about 150 relationships. And the Insight was what if, instead of just fundraising, we could engage these banks and other players, their sector policies, their products, their risk controls, and so on, related to the environment, and have an even bigger impact than raising $100,000. And so I was a manager in that program. And it really opened my eyes to the big picture. I think there are a lot of people in sustainable finance doing different things. And it's all part of the movement, and it's all critical, but I just I did not have an interest in converting 5% of someone's portfolio into a great story.

They could tell it the next cocktail party, which is a lot of ESG; I would say, at least traditionally, my goal was the impact that means mainstreaming. And so, how can you make environmental and social considerations and sustainability the norm across the core capital flows? And that's something I really learned and honed at the World Wildlife Fund. So it's not just pandas and tigers all over there. There are also about 150 people doing corporate engagement across high-risk sectors around the world. So working with CEOs working with executive teams, and bringing environmental science, it's a great organization. I saw with that passion and that learning; I did a lot of public speaking.

And I would always see young people raising their hands saying, How can I do this? How can I get involved? I mean, it's easy to have blinders on. And think of where we are now, where like everybody knows about ESG. And there's lots of products launching, and it's kind of in the air. But if you rewind the clock, five years ago, ten years ago, it was just starting, where people may be coming out of business school, or those types of Education's really wanted to work in social impact and sustainable finance.

But there were no jobs, and people couldn't figure out what to do. And people wanted products, but there were just some expensive mutual funds. And so I could see that the demand was outstripping the supply. And the product bench was pretty weak, in my opinion. And I really wanted to mainstream this stuff. And then I was fortunate enough to be longtime friends with a couple of guys from Bridgewater associates, which you might know, now the world's largest hedge fund, who are looking to break out and start a startup of their own.

And they had led teams building a lot of the key automated and computer systems at Bridgewater for portfolio construction risk controls trading, and we came together. And just, if you want to mainstream, we realized that there's no big tech horsepower player in the space, and we could bring tools and technologies and build things in a way that a traditional asset manager couldn't do. So we decided to fill that role as all the media folks, there are the asset managers, there are data providers, and that's great. But there was a need for a hardcore tech player to build the next wave of tools.

And so that was the starting insight for open investment. I brought the industry background and domain knowledge, and a bunch of the vision. But thankfully, I had partners who brought these tech skills and deep experience to bear, and that was the beginning of the company.

Andrew
9:20
Can you tell us for listeners who haven't heard of open investment? How would you describe what that platform is?

Josh
9:26
Sure. So OpenInvest is a mission-driven company. Our mission is to build technology to help mainstream values-based investing to make it the norm. And so all we do is build tools for ESG. And I'm saying tools because this is beyond launching products like a new ESG fund or ETF or something like that; even though we do some of that, it's building things like visceral impact reporting on your assets, you can actually see an experience what you own this many tonnes of carbon it's equivalent to this many flights.

Here's how many cigarettes you avoided from your portfolio, the ability to vote and shareholder resolutions are proxies with a swipe on your smartphone; whenever something comes up, you might care about the ability to do X-rays on your assets or other people's assets and see what the actual social, environmental impact is of their current holdings, and so on. So it's building these types of toolkits that are open to investing in a mission-driven company that builds tools for ESG. We're about 70 people now. And we were acquired by JP Morgan a year ago.

Andrew
10:25
Just for full disclosure, I'm a shareholder of JP Morgan. That's a company I've recommended to subscribers of the ILA there. That said, so when you're talking about a feature, which sounds really cool, of being able to

just touch a button, then you can submit your proxies and example. These are basically because JP Morgan acquired you guys; it's going to be something that's rolled out to people who have chased accounts and things of that nature.

Josh

10:54

Yep. So we started; we were acquired a year ago, and the focus of the past year has been integration. And that includes bringing our existing tools into the fold at JPMorgan. That's an ongoing process; we've already launched a few things, and we'll continue to do that; I would say we're now also entering phase two as a parallel track, which is to continue the pace of innovation. It wasn't to build products and then stop and then just bring them into JPMorgan; we need to stay ahead of the market and keep building the next wave of cool stuff.

And then, although I think we have an eye towards phase three, which is to pave the way for more and more startups and tech talent to be able to work effectively with JPMorgan, I'm sure we'll get into that. But there are incredible synergies between FinTech talent, like our firm, and the size and scale, and scope of JP Morgan. So how can we accelerate the ability to unlock the synergies with more and more players and bring value to clients in the world? So I think that I see that as a third chapter. And we're starting to scope that as well.

Andrew

11:53

To almost see it as like a confirmation of everything you're trying to build, to see the legacy banks, acquiring startups like yours, well inspire, you know,

Josh

12:06

a lot of market forces that work there to the here's how I see it, and you don't really know until you live it. But distribution is everything for any startup in FinTech. It's a slaughterhouse; right the road is littered with grave zones of better mousetraps that didn't succeed in FinTech because they couldn't get it back to the market. And we can talk more about this. But this is a very special industry, obviously, highly regulated.

Although there are other regulated industries, I think the biggest force is you don't have very discerning engaged clients, not food or fashion. People don't frequently switch, maybe they see your new app, your FinTech app, and they say they're gonna do it next weekend. And then it's next weekend. And it's next weekend. And that doesn't happen. There's a 90% retention rate in this industry for clients. And so that means people don't switch products and providers; it makes it a great business; you have recurring revenues from a relatively locked-in client base; I like to think that the new next generation is starting to change that. And that's going to drive a lot of innovation. Millennials and Gen Z are more engaged with their finances and more interested in new tech tools to enable that, and we'll get a positive flywheel.

But as it stands, right now, you have FinTech; there's a lot of fat in the industry. Because of this, there's a lot of need for innovation. fintechs are agile; they're able to fill that void and build great new products. But then you have big incumbent players with incredible reach. So JP Morgan services more than half of all American households, and scope, the ability to leverage look at client's spending data and use that to inform what investment solutions you would offer them or vice versa, right? So it's an incredible synergy or value creation to actually bring these things together.

And right now, the main model, m&a, has a lot of friction; I hope that there become smoother and smoother models in the future for partnership and collaboration between both sides of this coin.

Dave

13:59

Well, I was going to ask you to know Fintech is something that has really intrigued me over the last few years working in the banking industry. And then, I guess, intrigued by FinTech and all the things that it can do to change the way we use our money. And I'm curious what your thoughts are on ongoing disruption in the FinTech world and how you think consolidation is going to continue. Is it going to continue?

Are the big banks going to not fold? That's maybe not the right word for it. But are they going to continue to bring on FinTech partners like you and your company and others to do things that they can't do but they know are needed?

Josh

14:34

I mean, I'm interested in how you define disruption or what you see, at this point, not feeling like it's a real disruption but more of an acceleration. This industry is sitting on a lot of old technology, and there wasn't a huge imperative to update that. Because of the forces, I was just talking about. I think that's changing and it's very exciting. So it provides opportunities for fintechs and m&a. It provides a huge amount of opportunity for the banks. And ultimately for clients, I do want to highlight, you know, we talked about next-gen, there's the competitive force of fintechs. I think another driver that people don't think about, the life of me here, is actually ESG itself. And I'll explain why.

So people think of ESG as an asset class, or a niche, or maybe some other set of technologies. But it's really at the vanguard of the forces that are driving this tech acceleration. Because traditionally, most clients don't have special views on the market or what to do with their finances. And the percentage of them that should have those views is even smaller, right? You should, by and large, typically 90% of the time, leave it to an expert and not touch that portfolio. I know you guys might talk about different things. But from a passive perspective, there's not a lot of expert perspective from the clients themselves with ESG; the whole game changes because now we're supposed to incorporate new factors that are subjective, and therefore the client's view is completely valid.

Their political views, environmental views, their social views are completely valid. And they vary; you might care about climate change and marine plastics. And I might care about diversity and weapons, right, and it's so now you suddenly have to accommodate essentially infinite combinations of valid points of view on portfolio construction. And it's dynamic; I can tell you because we serve millennials, people change their minds every weekend. So the entire infrastructure in the way it was set up was built for scale; you build a single product, ramp it out through your channels for maximum scale, and hope it lands in someone's portfolio and that they don't touch it right.

And now, the industry is inverting towards like a service industry, client pole. Clients' views matter, they have to have a great experience, or maybe they're actually going to switch now. And they should be dynamic, so they can change their mind. And all of that has to be scalable, which means a complete technology rebuild. And so if you can accommodate your environmental values and my social values and us changing our minds, you've rebuilt your whole platform, you've replaced formed. So I see ESG, actually, as a driving set of use cases for this tech disruption or overhaul acceleration that we're talking about.

Dave

17:16

I think I like that idea. And I agree with a lot of what you're saying; I think I worked in banking for about five years. And when I was working with customers, I could speak directly to what you're saying about people not switching their banks. I worked for Wells Fargo for about five years. And I was there right at the end of that whole account, you know, debacle thing. Yeah. Don't forget, no, they don't. But you know, what was interesting is, is that, despite people being so angry about it, they still didn't switch.

And you know, you had, you did have a few people we've, but by and large, more people just came to complain to us about what was happening, as opposed to actually making a change, you know, with their banking relationship. And there was kind of a running joke in the bank that people had longer relationships with their banks than they did with their spouses, with their significant others. And I can speak directly to what you're saying about people; it was very hard for people to switch.

And I think that with the ease and reducing friction that you're seeing now, with a lot of FinTech stuff, I think I expect that that will change because it's just so much easier now to make changes, even though, like you said, sometimes they may not because, you know, the weekend came and they got distracted by this data, their thing, but, you know, it's just you're an insider, I'm not. So it's kind of interesting to hear your point of view from what I was seeing.

Josh

18:39

That's just the beginning, though. I mean, it's not going to turn become food and fashion overnight.

Dave

18:43

No, I would definitely agree with that. So what do you think of the status of ESG funds? And all those kinds of things? Is that something that you're comfortable talking about? Or is that not something you really spend much time thinking about?

Josh

18:57

No, I definitely do; we used to spend a lot of time thinking about it. I'll throw out a rough idea here, which is that our vision is that there's a post-fun world coming. So why would we pull 20 million people into a product, say one of these big passive index trackers? When everybody works in a different industry, maybe your partner works in a different industry, you have different environmental or social values, you have different tax situations, and clients are off the efficient frontier. And advisors and providers haven't been able to go the last mile because of this legacy technology, which was built for scalability, right? But now we have zero-fee trading fractional shares; what costs are we pulling against anymore by putting everybody in a single product?

And this was kind of the first problem we solved, and that would be the original product development open invest was to skip the fund manager and have software that buys the underlying securities, and at benchmark, this is off called direct indexing, but it was dynamic. So connect it with a client interface where Andrew can say, Okay, well, work in finance, my partners in health care, I care about tobacco and climate. And you know, these are my taxable games and so on, and that can dynamically be reflected in a portfolio. And then you can have an s&p 500, or whatever index solution index fund, but not the fund running just for you. So that's just an example. And then you can see that expanding across asset classes, integrating with Andrews's financial planning, integrating with his charitable giving, you create a fully personalized and dynamic financial experience. And so we, I would call this the post-fund world; I think that it's coming. It's coming because technology is possible. It's not as competitive, says industries, but this is still a competitive industry.

So the competition will ultimately drive people toward better solutions. And so I think that's where we go long term. And then, for reasons we can discuss, I think this is what ultimately brings the mainstreaming of ESG and sustainable finance, just because it becomes easy. It's you push a button, and it just runs through your assets. Like why wouldn't you push the button? Just boom?

Andrew

21:11

Yeah, it makes sense. I know, one of the critiquing opinions on maybe the whole thing, in general, is feeling like whatever you invest maybe doesn't make much of an impact. Can you speak on that idea? And how much? You know, obviously, if we're talking about scale, you get enough people to do something, it can have the potential to sway things, but can you talk about the mechanics of how capital going into some of these things can potentially sway things? And, and or what you would say to that critique?

Josh

21:45

It's a great question. And these have always been the classic questions, right? One was, Are you hurt getting hurt on performance? The others, does this even have a real impact? Here's my response on the impact of several counter-arguments, right? It's a great argument. And this is not resolved. So I don't know the full answer. But here's what I'd say. One is that there are a lot of people that just want to wash their hands at the issue. And I think that that's completely acceptable moral behavior that we do in many other areas of our life, like, why do you recycle? Why do you vote? All these things are completely negligible.

But being a moral person, if you think you're part of the categorical imperative, so you do the right thing, right, and there's implied scalability there. The second thing is that there's an indirect; what I found is a lot of the impact comes now through social media and the brand threat. So it's not necessarily the direct impact on the cost of capital or the price of a stock you have saved divesting or investing. But when people start to divest and talk about it online, you see Corporate Relations light up, right? This becomes a concern for the brand because it's a high-intention behavior. It's one thing to just go on a rant on Facebook, but to actually move your money, like we were saying before, is a high-intention behavior that suggests that people are feeling very negatively about the brand.

And that's something that companies often respond to, and they will change corporate policies. A third thing is if this wasn't impactful, then why is it such a political football? Now? This is an interesting question, right? And I'm not going to take a political side here. But the GOP has become a huge recent force pushing back on

ESG. And it's swinging with administrations right now. They're trying to limit the ability to use ESG, retirement funds, and so on. If it didn't have an impact, why would they care? So that's a good question. And the last thing is really proxy voting, which is up in unlocked yet but has been referred to as the sleeping giant of ESG. Do you own the shares?

Do you have the ability to vote in board-level decision-making, especially when people can coordinate online or have campaigns? I mean, when I got started in this space, ten years ago, you never won, any NGOs, an activist ever actually won this ESG, shareholder resolutions that are changed, like, people are winning these things now. And that's part of why it's become a political issue because that's high impact. So it's right there. And it's shaping corporate policy.

Andrew
24:13
That's why I thought your example of like one-button voting, I think is such a cool idea. Because the technology is there, it's just a matter of getting in front of the hands of people who would do something about it and spread the word about why it's important and how it can create change in the companies, and a lot of these changes could be for good for a lot of these companies. You know, I think anything that increases accountability in general, over the long term, is a net benefit to shareholders in general.

Josh
24:44
Yeah, I'm very excited about the space. It'll be really interesting to see how this plays out. But there are a number of startups entering the space; there are big players taking action here. And I think even over the next two years; you're going to see a lot of activity on proxy voting where people Who didn't take it too seriously before think that this was an area of innovation, I think that their minds will change over the next couple of years.

Dave
25:05
We have a fair amount of listeners that are probably in the younger category, air code younger category, the older I'm in than, the older end of the spectrum. But you know, in the early 20s, maybe early 30s, how could if this is something that they think is really interesting? How can people get into sustainable finance as a career? What path can they take to start doing something like this? Because you know, there's a lot of smart people out there, and the more brains you put towards a problem, the better answers we can get? How can people get into this,

Josh
25:38
I always wonder what advice career advice I'm gonna give my kids as they get older; the path goes to work in the jungle. It all worked out. And it was probably high risk. I honestly think the highest estimated value outcome for achieving your dreams and sustainable finance is to go work for a bank or large asset manager one out of college when they can, or whenever you're ready, that has the ability to offer a training program, and give you the support that you need, while you build those kinds of basic hard skills. And we have a JP Morgan, now we have a whole analysts class, and we have a bunch of analysts, we've created an analyst program for open invest. So we have a bunch of analysts right out of college who are getting to work with us on ESG and technology and all the stuff we're doing.

So it's completely doable. So people are lucky; they're in a world now where these jobs exist and are actually in high demand. I've never seen this before. So it used to be an oversupply of do-gooder sustainability people. And it's completely inverted. And there's like the financial institutions are fighting for talent here. So in a good position, and then even when you come into an analyst program or an entry-level program, you can often express interest in this area and get the exposure that you want in those areas. And then, you have the flexibility to branch out from there and find out what you want to do or move into other parts of the space. But there's nothing like having that direct finance experience. But again, I'm weird. I'm kind of; it's hard for me to I'm basing on what I've seen, not what I've done.

Dave
27:10
Right. Cool. Thank you.

Josh
27:13
Well, guess I'm an example, though, that anything is possible. So there is another path where you can just be an ideal us the whole way through, and there's a potential for it to work out. Well. That's cool.

Andrew
27:23
I think it's fascinating. If you had one takeaway for the average investor before we wrap up, this was a lot of fun and very informative. What would your one takeaway for the average investor be?

Josh
27:34
I would say, Don't segment your life. I mean, invest with your values, forget all the debates and how it's political or performance or like, everybody cares about stuff. And instead of just ranting on social media or giving the charities when there's a crisis, your capital is one of the most impactful channels you have in your life to make a difference. And especially if you live in a swing state, if you don't live in a swing state, and I don't know, but you have assets, then I think how you allocate those assets is one of the best ways you can at least go home feeling like you're helping to make a difference. And I believe you are certainly at scale as part of this larger movement. So the resources are there online; it's not hard to spend an extra 30 minutes doing some research on how to do it. Just think of your life holistically; think of the things you care about. And that includes how you allocate your assets. And we're lucky to live in a world where you can do so profitably while helping advance the stuff you care about.

Andrew
28:29
It's very interesting. And Joshua, thank you for joining us today. If people want to reach out to you or find out more about what you've got going on are your company, where should they go?

Josh
28:40
So you can just Google JPMorgan OpenInvest, and you'll find us there. And there's a dedicated website that is emerging soon with a lot of resources. But you'll find us I'm on LinkedIn these days. That's my main social

media. So not only Joshua Levin, but put in Joshua, invest, and you'll find me, and I'm happy to engage with people.

Dave

28:59

Awesome. Well, Josh, we really do. Thank you for your time today. This was very informative, and it was really interesting. And I love your story. And I love your passion for what you're doing. And I'm enthused after talking to you. And I think a lot of people will be as well. So again, thank you for taking the time to join us today. And we really appreciate your time

Josh

29:18

Thank you so much for your time, guys. This was great. Have a good day.

Dave

29:21

You too. All right. All right, everyone. Well, with that we will go ahead and wrap up our conversation today. wanted to thank everybody for joining us tonight and go out there and invest with a margin of safety, emphasis on the safety. Have a great week and we'll talk to you all next week.