

Opinion: Institutional investors may bring gunmakers to their knees

By Ken Silverstein, Forbes

The energy and gun worlds are about to collide. Fundamentally, the two have almost nothing in common – except that each has been or is about to be the subject of immense pressures from large institutional investors.

Money managers have long exercised their financial muscle. Energy companies, for example, have been rewarded for developing clean fuels or critical infrastructure. Now, some of those same investment managers are targeting gun manufacturers and particularly those that make semi-automatic weapons.

“The bottom line is neither the California Public Employees’s Retirement System (CalPERS) nor the California Teachers Retirement System (CalSTRS) should have any investments in the makers of guns that are illegal in California, especially those guns that have been used to kill 20 innocent children and six innocent adults,” says California State Treasurer Bill Lockyer.

While those investment managers must serve their shareholders, many would argue that they have a greater purpose – to leverage their strength to achieve common good and to improve lives where they are conducting commerce. The best example is when the masses pressured their institutions to extract money from South Africa’s former Apartheid government. Both corporate and scholastic icons responded, which became the impetus that brought down that regime.

Certainly, money managers could use their same influence to

effect common-sense changes to gun laws and to penalize those weapons' factories that place their profits ahead of the concerns of the local communities where they co-exist. □□That's why Lockyer asked the country's two biggest pension funds to examine their allocations in these companies. His request was immediately felt, prompting Cerberus Capital Management to say that it is dumping the Freedom Group that makes one of the firearms used in the Newtown, Connecticut massacre.

"The tragic and devastating acts that took place Dec. 14 at Sandy Hook Elementary School in Connecticut have prompted many in this country to call for change: To determine what we can do differently to help ensure the unthinkable never happens again," says a statement by Calstrs. It has \$750 million invested in Cerberus.

The flip-side of the argument is that those pension fund managers have a fiduciary obligation to maximize their returns to plan participants – not to make political or social statements. But such thinking is one-dimensional. In the case of Cerberus, it has been reported that its chief executive has relatives in Newtown, meaning that the corporate boss has tied his business to what is now happening in that community.

Indeed, it's about corporate social responsibility – or the idea that the companies and the cities in which they prosper are irrevocably linked. Business reputations have currency and as such, firms must project a positive image. Public outcry has significance. It's why the National Rifle Association's leadership, which exacts punitive retribution against those who cross it, has released a statement that says it will now try to be more accommodating – at least until legislation starts moving to ban assault-style weapons that can trigger multiple bullets at once.

But the gun lobby gets its fire power from the gun manufacturers. As long as they are flush with cash, so too are

its richly-rewarded lobbyists who intimidate those officials on Capitol Hill and in the state legislatures. But now, the actions of the California pension funds are spreading. The Massachusetts treasurer's office is making a similar request of its fund managers. More states are certain to follow, especially if the public anger coalesces into the kind of movement that destroyed Apartheid.

Bottom line: Share prices of the gun makers are taking a direct hit with both Smith & Wesson and Sturm Ruger & Co. going down. They may be able to bully lawmakers and legislators. But they can't threaten the institutional investment managers. Who wants to profit off the misery of others?

"It is apparent that the Sandy Hook tragedy was a watershed event that has raised the national debate on gun control to an unprecedented level," says Cerberus.

Investments with a higher purpose can beat market averages. CalPERS has often said that socially responsible investing has enhanced its returns. Meantime, the International Shareholder Services says that such thinking is a business imperative: Two-thirds of the companies that it surveyed said that good governance is the right thing to do and that such standards also give enterprises a leg up.

Both shareholders and creditors have expressly said that business must actually live and breathe their corporate codes of conduct. Along those lines, many mainstream investors want to see companies become more "socially responsible" – in essence, to expand their missions beyond serving just shareholders and into the communities where they work.

"With only rare exceptions, the financial community has not sufficiently recognized or rewarded corporate efforts to respond to environmental, labor or human rights challenges, even though such factors can be directly material to corporate

performance,” says Marshall Carter, chairman of the New York Stock Exchange Group, in a speech.

While shareholder activism has its cynics, the reality is that businesses must now appeal to a broad range of constituencies. Good corporate citizenship adds value while bucking the mores of a civil society will eventually kill enterprises.

The energy sector knows this firsthand. It has seen the greediest of its members collapse. That’s why the power and gas industry, generally, places a high value on stakeholder communications and community outreach, all with an eye on building consensus. The gun lobby, conversely, has long hidden behind specious arguments, reasoning that it can run roughshod over the people’s will. But now, the institutional investors are the ones packing heat that could drop the gun makers to their knees.

The large pension funds would be justified to leverage their financial clout to effect social change here – to accomplish what elected officials have failed to do, which is to better protect our local communities. And if its good for real people, it’s also healthy for shareholders.