Ethos Looks To Build Legacy With Focus On ESG, Culture

James Fletcher's past roles and experience over the better part of two decades in the investment space have culminated in the launch of emerging markets equity firm Ethos Investment Management, which he hopes will be his legacy.

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Ethos launched on Jan. 3 and its future already looks bright as it boasts an emerging markets small- to mid-cap equity fund with $100 million in committed capital from seed investors as well as strong demand from other potential clients the firm is speaking with, according to Fletcher, who serves as cio.

The firm implements a bottom-up approach that identifies high quality companies with attractive fundamentals that are able to drive long-term sustainable earnings growth and typically holds a concentrated portfolio of 30 to 50 names.

The fund also incorporates ESG into its process, Fletcher said, noting that after "rigorous individual company analysis," the Salt Lake City-based firm then identifies businesses that rank highly on ESG factors, focusing specifically on company culture, governance and sustainability.

Fletcher is joined on the Ethos investment team by Research Analyst Tim Zhang, while Partner Dana Witkin serves as the firm's coo.

The most recent pitstop on Fletcher's road to starting his own firm was working as director and senior portfolio manager for APG Asset Management's $1 billion emerging markets smid-cap portfolio. Prior to that, he was the lead portfolio manager for Kayne Anderson Rudnick Investment Management's emerging markets small-cap fund.

But Fletcher traces his love for investing back to his grandfather, James C. Fletcher, who served as both the fourth and seventh administrator of NASA.

"His hobby was stock market investing. So, one of my earliest memories is on my grandpa's lap, him showing me his investment accounts and The Wall Street Journal, and he just loved investing on the side," Fletcher said. "Ever since those early days, I read [Warren] Buffet when I was 14 years old, and I've just been focused on investing ever since."

His appreciation for emerging markets, however, came from something much more tangible.

"I started in emerging markets because I was a Mormon missionary in Brazil for two years and just fell in love with other cultures, other languages, the developing world, and so after my missionary service, I just really wanted to work in emerging markets," Fletcher said, adding he was hired out of school by Westwood Global as a senior analyst.

Fletcher managed to translate that appreciation into his own strategy and philosophy at Ethos, where the firm sees "huge opportunity" in emerging markets.

"Emerging markets is 85% of the world's population. It's 59% of the world's GDP. Yet it's only 11% of global MSCI allocation and according to eVestment, it's about 6% of the average allocators' investment fund," he said.

"Over the past 20 years, EM has given 9.8% annualized returns, almost identical to the 9.3% 20-year annualized returns of the S&P 500," he continued. "So, we think it's a great entry point into a long-term asset class, which China, India, Latin America and Southeast Asia are expected to be the secular growth markets for the next decades to come."

One of the legacies that Fletcher hopes to leave by establishing Ethos "is that when you see Ethos in the shareholder registry of a company, that it automatically signals to the investment community that this is a company that is well-run, high quality, has a great company culture and great ESG standards," he said.

Ethos gets its name from the Greek word for character, which means the guiding beliefs of communities, institutions and people, Fletcher explained.

"Our industry talks a lot about Greek words, such as beta and alpha, but what we found is that the Greek word of ethos is one of the key words in determining the long-term success of companies," he continued. "We do a lot of work on the company culture, evaluating the company culture and the businesses that we invest in, their impact on society, their impact on their employees. The question that we commonly ask is what is the ethos of the company? What is the culture of the company? And we think if you get the culture right, then the long-term profit growth and investment returns will follow."

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Goals that Fletcher hopes the firm can achieve in 2022 include reaching the fund's founders class fundraising of $300 million, as well as building out its investment team and culture "and creating the right framework of an investment fund for the future," he said.

"With Ethos, this is my legacy that I'm hoping to create for the next 20 to 30 years," he said. "We're really focused on getting it right, getting the team right, getting the process right, the philosophy right to generate great long-term performance over the cycle and offering a product that's different from most mutual funds and hedge funds out there."