



# **APPLYING ESG: WHAT FACTORS MATTER AND HOW CAN WE EVALUATE INVESTMENT MANAGERS**

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# WHAT'S BEHIND THE E, S, AND G?

## CORE FOCUS AREAS IN ESG INVESTING



### ENVIRONMENTAL

Pollution  
Carbon emissions and  
climate change  
Resource utilization  
Sustainability



### SOCIAL

Employees  
Customers  
Suppliers  
Community  
Human rights



### GOVERNANCE

Executive compensation  
Management structure  
Board accountability  
Shareholder treatment

# BUT DO ESG CONSIDERATIONS MATTER?



# WHAT IS ESG INTEGRATION?

**A valuation process that considers E, S and G factors**

**OR**

**A risk management that considers the E,S,G factors**

# APPROACHES TO ESG INTEGRATION

- **Timing of integration – pre or post investment?**
- **Full integration or partial?**
- **Type of data used to frame ESG assessment?**
- **Who integrates E,S,G factor in financial analysis?**
- **Who is incentivized to integrate E,S,G factors?**

# CHALLENGES TO ESG INTEGRATION

- **Complete integration vs. an after-thought**
- **Lack of good and standardized data**
- **Lack of management buy-in**
- **Lack of alignment for investment team**
- **Monitoring and measuring the impact of integration**

# NEPC ESG ANALYSIS

- **NEPC has developed an ESG rating tool that uses quantitative and qualitative assessment**
- **A quantitative approach to standardize comparison across managers in all asset classes**
- **A qualitative assessment to analyze the true intent of ESG integration**
- **ESG ratings and Due Diligence Ratings will be independent classifications**

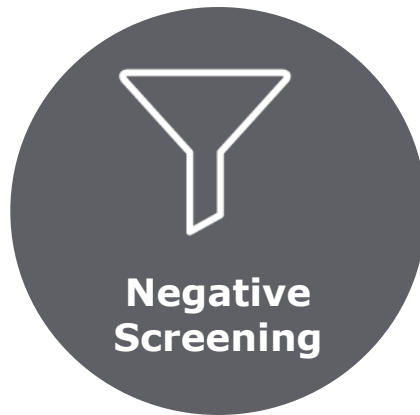
# SAMPLE NEPC RATING SCORECARD

General Fund Information	
Firm	ABC
Fund	ABC Fund
Strategy-Type	Equity
Firm AUM	\$3.1 billion
Strategy AUM	\$1.8 billion
Portfolio Managers	Mr. XYZ
ESG Rating Ratings are 1-4 [1 is best]	
ESG 2	
Analyst Opinion	
<p>ABC is making a concerted effort to incorporate ESG into its investment process, driven by the idea that ESG factors represent material risk-return drivers. While the Firm's efforts are aligned with what NEPC would define as best practices, ABC is fairly early on in its formal integration of these processes. It will be worth tracking the Firm's efforts and having follow-up conversations about its success in engagement and how ESG has driven investment decision (buys and sells).</p>	

Evaluation Criteria and Commentary	
Firm-Level	
Firm-Level Commitment	ABC established responsible investing principles in 2012 and affirmed an additional commitment to formally integrating ESG into its investment process in 2017, including signing onto the PRI. Firm leadership has signaled their view on the importance and materiality of ESG factors on the companies they invest in – both as risk considerations and opportunities to unlock value.
Resources	ESG research has been elevated to be a standard, systematically-applied part of the research process carried out by the Firm's investment professionals; the idea being that ESG research should be seen as equally important to other metrics when considering investments and therefore the analysts that drive decisions should be also driving the ESG research. Additionally, ABC leverages a range of external data providers and consultants.
Engagement Policies	As an activist strategy, engagement has always been an important part of its investment philosophy. ESG factors are becoming key discussion points when working with portfolio company management to improve performance and shareholder value. ABC will vote in accordance with its views on achieving best outcomes for their investment.
Strategy-Level	
Overview	All new investments are reviewed in context with the Firm's proprietary ESG Framework designed to assess risks and opportunities related to ESG factors.
Integration Process	The firm views ESG integration as a way to mitigate risk and create value across their funds. ESG is integrated and tracked throughout the investment process.
Resources	All firm level resources are available at the strategy level.



# OTHER WAYS TO IMPLEMENT AN IMPACT STRATEGY



## Strategy Focus

Screening out certain securities for non-financial reasons

ESG Factors built-in as part of the investment process

Pro-actively seeking opportunities in targeted areas (e.g. Renewable Energy)

Actively engage in corporate voting process to push key agenda

## Investment Universe

Varied across asset classes

Sizable and includes mainstream managers

Growing in size, but most funds are smaller and newer

Small but growing

## Performance

May lag benchmarks due to restricted universe

Performance studies show neutral to positive impact

Varied and will have sizable tracking error due to sector focus

High

## Level of Impact

Low

Low/Medium

High

TBD

**Note: Thematic investments may include ESG integration in the investment process**

# MANAGER DISCUSSION

## **ASHA MEHTA, CFA**

Senior Vice President, Portfolio Manager, Director of  
Responsible Investing

**ACADIAN ASSET MANAGEMENT LLC**

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