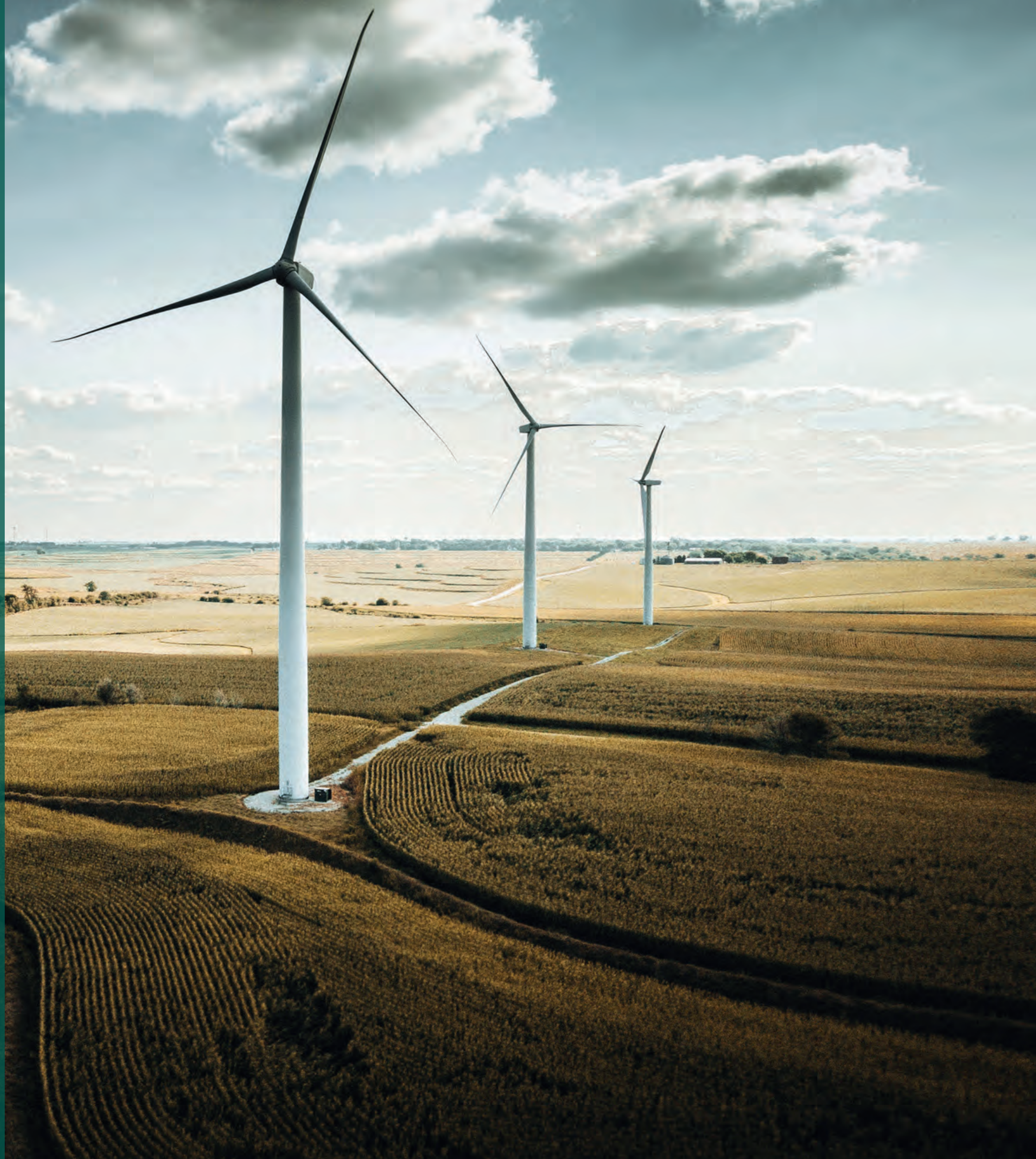
CAMRADATA

ESG REPORT

The Covid-19 pandemic and resulting market chaos have put ESG under the spotlight again. We look at its relevance, how resilient ESG strategies have been in the crisis and more.



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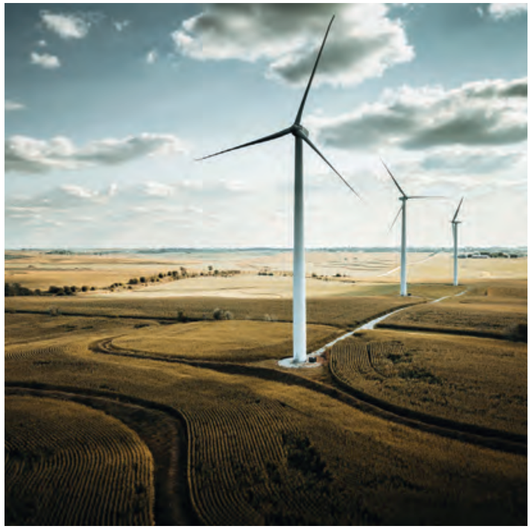


EDITORIAL

The understanding and integration of environmental, social and governance (ESG) criteria within investment mandates has developed greatly in recent years. Two good indicators of this are the number of asset managers that have signed up to the United Nations' Principles for Responsible Investment and the proliferation of ESG research providers now assigning rankings and ratings to corporations and funds. For me, though, the main indicator is the undeniable fact that more and more investors recognise the importance of ESG as a risk management tool, never mind its potential as a return generator.

A by-product of these advances is that investors demand and expect their third-party asset managers to demonstrate not only a deep level of ESG securities analysis, but also show how this is integrated within wider investment processes – and show how transparently they can demonstrate the benefits of it. Fail to do this and firms could stand accused of 'greenwashing'.

In recent discussions with our clients, it was clear there was a need to provide investors with information that would let them easily review an asset manager's ESG capabilities and compare asset managers on a like-for-like basis.

CAMRADATA, therefore, undertook an exercise to deliver an ESG report that provides comparable information enabling investors to apply more scrutiny to the ESG capabilities of asset managers for whom we hold information. So, following discussions with a number of consultants and investors, CAMRADATA recently released a new set of ESG questions within CAMRADATA Live – our online asset manager research platform – and asset managers have sought to give us more clarity about the various ways they treat ESG and integrate it within their business.

These questions form the basis of an ESG report which the investor can run on each of the asset managers within CAMRADATA Live. The report is broken down into four sections: investment policy and firm structure; investment process; active ownership; and reporting. Each section allows comparisons between asset managers.

The sample publication you are reading provides just some of the comments made by a number of asset managers populating CAMRADATA Live, highlighting their current application of ESG criteria to investment policies and processes. To find out more and to run individual ESG reports on each asset manager, please log in to CAMRADATA Live today or request a free log-in by registering here.

If you require any further information about CAMRADATA Live, please contact us at info@camradata.com and one of the CAMRADATA team will be more than happy to assist.

Sean Thompson
Managing director, CAMRADATA

INVESTMENT POLICY AND FIRM STRUCTURE

To find out more about asset managers' individual investment policies and firm structure around ESG, log in to CAMRADATA Live at www.camradata.com

Aberdeen Standard **–** We believe that ESG factors are financially material and can meaningfully impact an asset's performance, and that an asset's ability to sustainably generate returns for investors is dependent on its ability to manage its relationship with the environment, its relationship with society and stakeholders, and on the way it is governed.

Candriam **–** Sustainability is rooted in Candriam's operating model and forms a key part of our corporate culture.

Sustainable Growth Advisers LP **–** Every member of SGA's investment team is integrally involved in conducting proprietary company research, which naturally involves the evaluation of social, governance and environmental issues which affect the long-term sustainability of growth and the risk inherent in a business.

ESG IN A TIME OF CRISIS

ESG RATING ‘LINKED TO OUTPERFORMANCE’ AS CORONAVIRUS PANDEMIC TRIGGERS VOLATILITY

COMPANY PERFORMANCE AND ESG RATINGS have been positively correlated during the market volatility caused by the Covid-19 pandemic – which has led to governments worldwide rolling out unprecedented measures.

A study by Fidelity International found that equity and fixed income securities issued at the top end of the fund manager’s sustainability rating scale have, on average, outperformed those with weaker ESG credentials – “with a remarkably strong linear relationship”.

The research, comparing the performance of more than 2,600 companies based on Fidelity’s own ESG ratings (from A to E), analysed performance between February 19 and March 26, as the economic and social impact of the pandemic became ever-more apparent.

Over that period, the S&P 500 index fell by 26.9%, but companies with a high ESG rating (A or B on the scale) dropped less than the overall average. Meanwhile those with a poorer rating (C to E) fell more than the benchmark, according to the research.

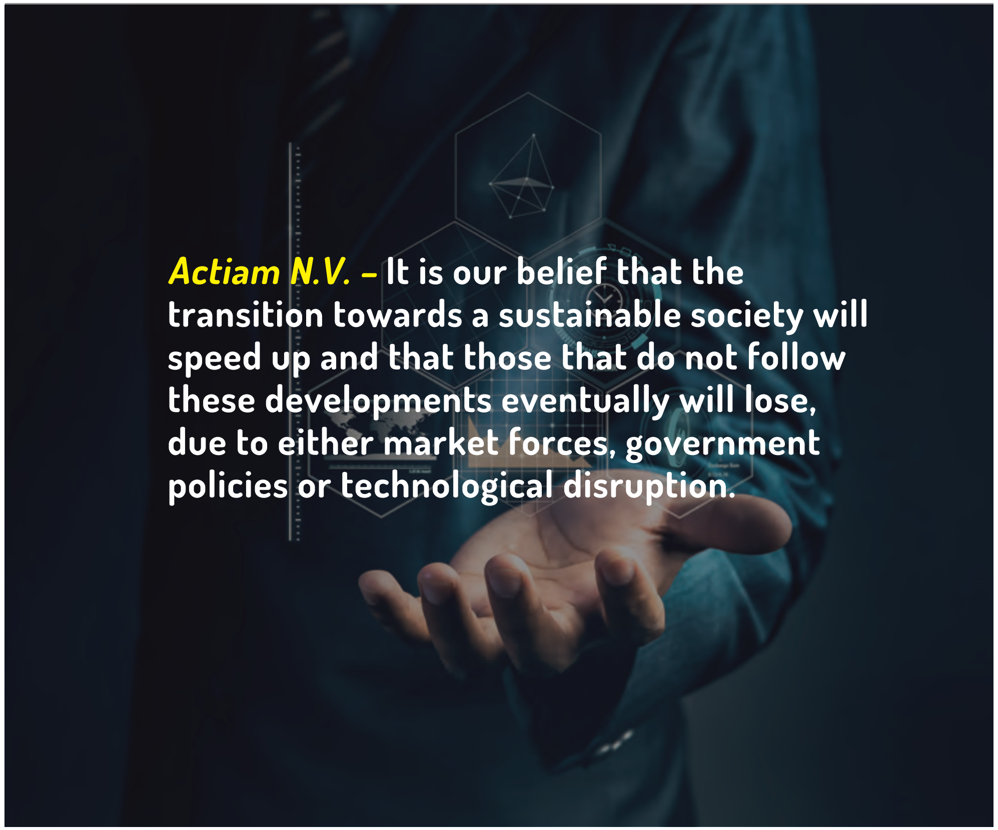
A-rated companies performed on average 3.8 percentage points better, while E-rated companies performed on average 7.4 percentage points worse than the S&P 500 during the period in question.

Jenn-Hui Tan, global head of stewardship and sustainable investing at Fidelity International, said: “While some caveats remain, including

“WE ARE ENCOURAGED BY EVIDENCE OF A RELATIONSHIP BETWEEN SUSTAINABILITY FACTORS AND RETURNS.”

adjustments for beta, credit quality and the sudden market recovery, we are encouraged by evidence of an overall relationship between strong sustainability factors and returns, lending further credence to the importance of analysing ESG factors as part of a fundamental research approach.”

The research also found the fixed income securities of higher-rated ESG companies



performed better on average than their lower-rated peers from the start of the year up to March 23, on an unadjusted basis.

Tan added: “The recent period of market volatility was shocking in its severity. A natural behavioural reaction to market crises is to lower investing horizons and focus on short-term questions of corporate survival, pushing longer-term concerns about environmental sustainability, stakeholder welfare and corporate governance to the background.

“But this short-termism would indeed be short-sighted. Our research suggests that what initially looked like an indiscriminate selloff did in fact discriminate between companies based on their attention to ESG matters.”

INVESTMENT PROCESS

To find out more about asset managers' individual investment processes around ESG, log in to CAMRADATA Live at www.camradata.com

UBP – **To undertake ESG research and analysis, UBP's investment professionals use an array of sources including companies (due diligence reports, management meeting minutes and annual reports), brokers, rating agencies and data vendors.**

Comgest – **We take ESG factors into account at different stages of the investment process to ensure that the investment teams are fully aware of companies' ESG risks and opportunities and use the results of ESG research for their investment decisions in a systematic manner.**

Sustainable Growth Advisers LP – **We consider our ESG efforts to be a means of enhancing the predictability of the companies within our portfolios and managing risk, aimed at avoiding potential negative impacts that might result from failure to properly assess the potential negative impact to a given company from mismanagement of ESG-related issues.**

ESG IMPLEMENTATION

ASSET OWNERS ACTIVELY INTEGRATE ESG FACTORS, STUDY FINDS

A MAJORITY OF ASSET OWNERS globally actively integrate ESG factors into their investment process, according to a survey.

Nearly eight in ten (78%) investors surveyed agree that sustainable investing is a risk-mitigation strategy.

"THE MAJORITY OF INVESTORS SURVEYED BELIEVE COMPANIES WITH ESG-ALIGNED PRACTICES CAN BE BETTER LONG-TERM INVESTMENTS, BUT CONTINUE TO NEED BETTER REPORTING DATA TO EVALUATE HOLDINGS ON THOSE CRITERIA."

Additionally, asset owners already practising sustainable investing have identified clear benefits to reputation and stakeholder engagement.

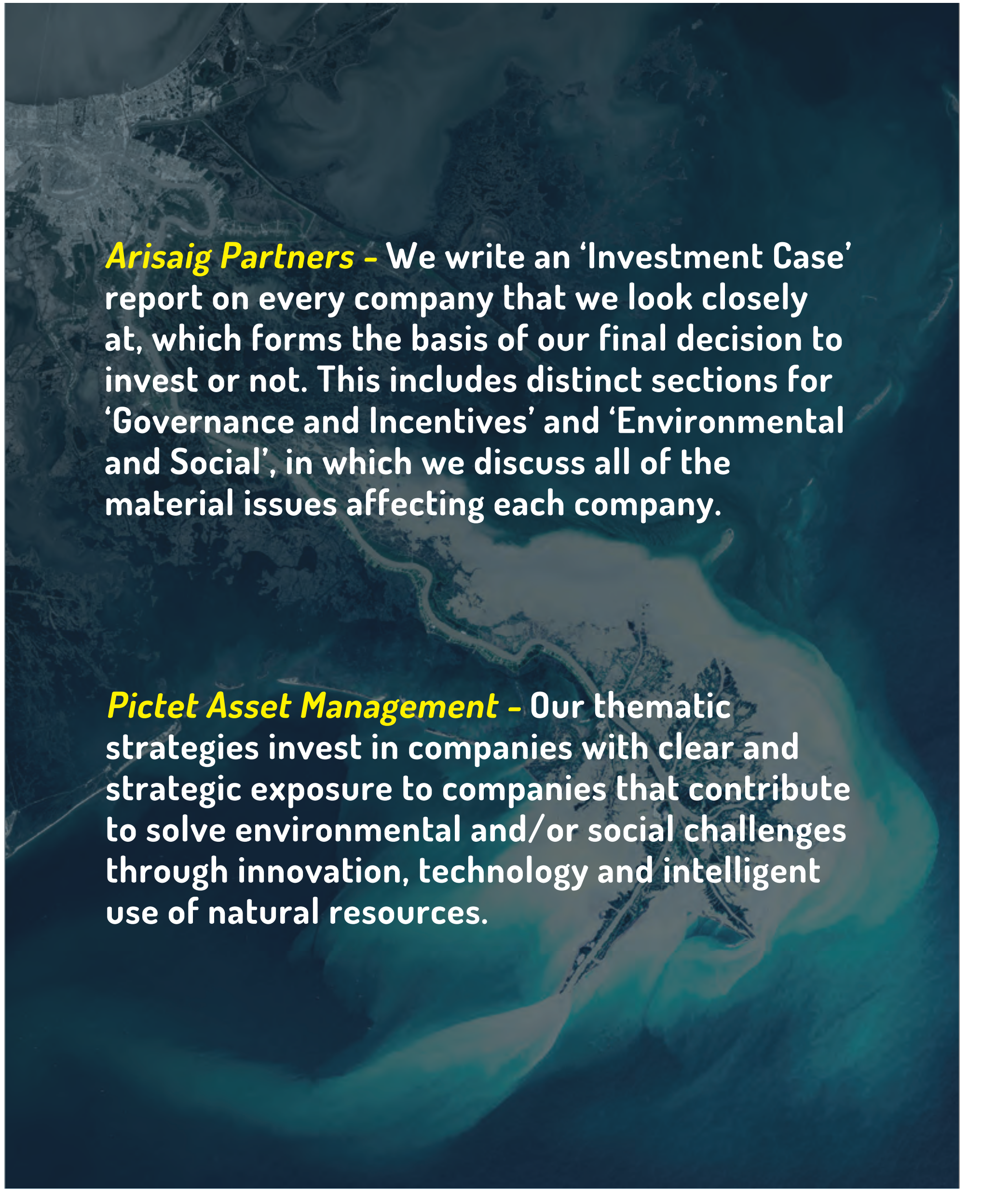
Morgan Stanley's Institute for Sustainable Investing polled 110 public and corporate pensions, endowments, foundations, sovereign wealth entities, insurance companies and other large asset owners worldwide.

"These results provide an additional proof point that sustainable investing has become table stakes," said Audrey Choi, chief executive of the institute.

"This year's survey found more asset owners identifying return potential as a key driver for sustainability integration, and accordingly many envision a future where they will limit their allocations to managers with formalised sustainability approaches."

Ted Eliopoulos, vice chairman at Morgan Stanley Investment Management, added: "The majority of investors surveyed believe that companies with ESG-aligned practices can be better long-term investments, but continue to need better reporting and data to evaluate holdings on those criteria.

"Investment managers can play a critical role supporting clients as they implement tools to assess how investments align with their sustainability goals."



Arisaig Partners - **We write an 'Investment Case' report on every company that we look closely at, which forms the basis of our final decision to invest or not. This includes distinct sections for 'Governance and Incentives' and 'Environmental and Social', in which we discuss all of the material issues affecting each company.**

Pictet Asset Management - **Our thematic strategies invest in companies with clear and strategic exposure to companies that contribute to solve environmental and/or social challenges through innovation, technology and intelligent use of natural resources.**

ACTIVE OWNERSHIP

To find out more about asset managers' individual active ownership around ESG, log in to CAMRADATA Live at www.camradata.com

Columbia Threadneedle – Well-governed companies that look to the future are better positioned to navigate the risks and challenges inherent in business and achieve sustainable performance and long-term value creation.

Actiam N.V. – As an active shareholder, we create impact by stimulating a change in behaviour. This can be achieved with a mixture of instruments: screening, engagement, voting, ESG integration, exclusion and impact investing.

Comgest – We believe that extra-financial criteria, notably corporate governance practices and shareholder fairness, are important for quality growth companies and can directly impact on long-term investment performance.

KEEPING COMPANIES IN CHECK

ASSET MANAGERS FAILING TO ACT ON HUMAN RIGHTS ABUSE, STUDY CLAIMS

A LARGE MAJORITY of the world's largest asset managers are "paying lip service" to prevent human rights abuse but few take meaningful action, a study has claimed.

Despite pledges to tackle human rights issues, little is being done to resolve problems such as modern-day slavery or the harm caused by controversial weapons, according to campaign group ShareAction.

Nearly half of asset management firms, with combined assets of more than $45 trillion, do not prohibit investments in controversial weapons banned by international arms treaties, it adds.

The report found that 70% of the world's largest asset managers do not have a policy to exclude or engage with companies in breach of international human rights frameworks.

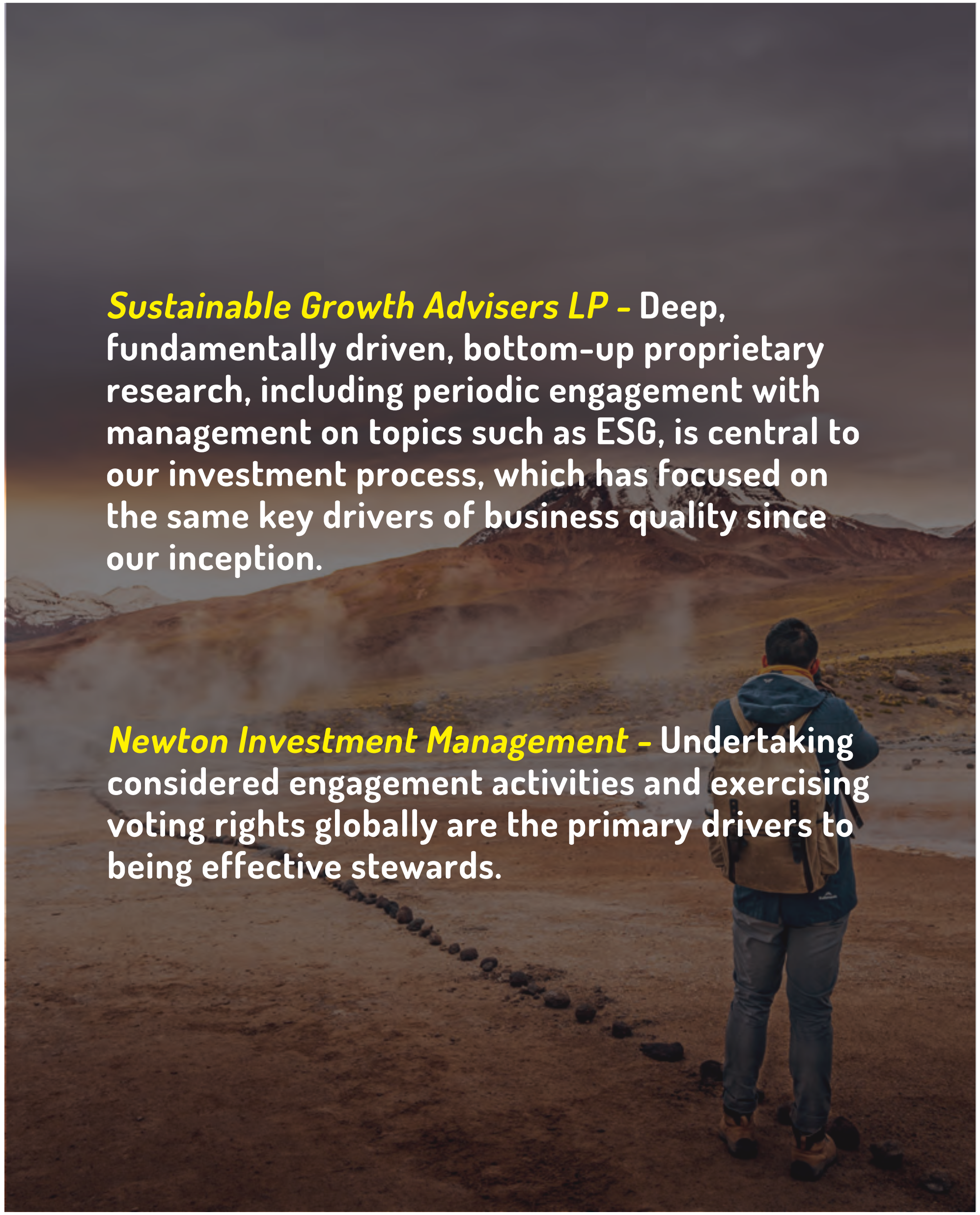
US asset managers are among the poorest performers on human rights, with six of the world's largest asset managers being called out for their failings.

These firms include Fidelity Investments, J.P. Morgan Asset Management, Vanguard, BlackRock, State Street Global Advisors and Capital Group.

More than 80% of asset managers also make no stand against purchasing sovereign bonds from countries under international sanction for human rights abuses. This undermines international efforts by allowing investment in governments issuing these bonds, such as Libya, Yemen and North Korea, the study argues.

Felix Nagrawala, senior analyst at ShareAction, said: "The findings of our assessment show that the world's largest asset managers, while paying lip service to the protection of human rights, are largely failing to hold the companies in their portfolios to account for human and labour rights abuses.

"The majority of the most influential investors not only fail to do the minimum by complying with international human and labour rights frameworks, but also actively finance activities which cause human harm and violate labour rights."



REPORTING

To find out more about asset managers' individual reporting around ESG, log in to CAMRADATA Live at www.camradata.com

Newton Investment Management – Newton publishes a quarterly RI report on the website that includes all voting activity, explanations for votes against management, engagement activity in the quarter and a log of all one-on-one meetings with companies

Kempen Capital Management – Kempen releases an Annual Responsible Investment report, detailing our ESG-related activities over the past year. In addition to this, multiple strategies release quarterly ESG reports that are specific to their activities.

Pictet Asset Management – At company level, we publish an active ownership report on a yearly basis, which includes key figures and commentary on our proxy voting, our ESG engagement with companies and our dialogue with sovereign issuers and index providers.

UK PENSION SCHEMES 'STRUGGLE WITH ESG REPORTING'

SURVEY UNCOVERS WIDESPREAD 'INFORMATION GAP'

A NUMBER OF UK PENSION schemes say they struggle to report on their ESG policies to a high standard and are largely unfamiliar with risks associated with climate change.

Caceis, a custody bank, found that more than 40% of trustees and pension managers it surveyed in the UK did not feel properly equipped to monitor and report on their schemes' ESG policies to the standard they wanted.

> "IMPLEMENTING CLIMATE CHANGE AND GOOD ESG PRINCIPLES WILL BE IMPORTANT FOR PENSION SCHEMES OF ALL SHAPES AND SIZES TO HELP MANAGE LONGER-TERM RISKS FOR THE BENEFIT OF MEMBERS."

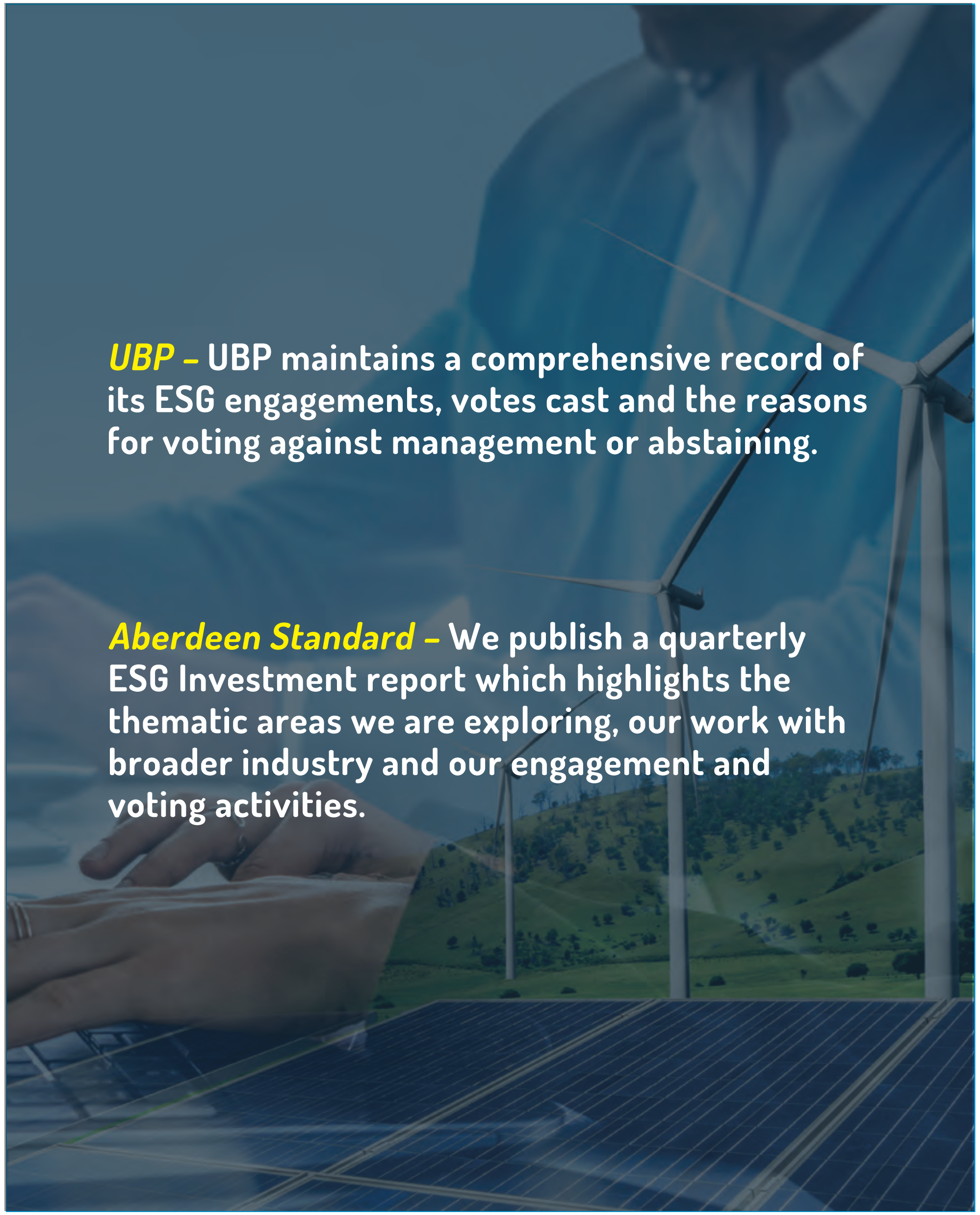
Nearly three-quarters of pension schemes were unfamiliar with climate change-related risks, while 26% said they found it a challenge to get access to the right kind of information.

According to Caceis, ESG reporting for the schemes is labour-intensive and time-consuming because of this "information gap".

The asset servicer's study comes after the implementation last year of legislation requiring trustees to outline how they incorporate financially material factors, including ESG, into investment decision processes.

More than half of the pension schemes that took part in the survey said they believed exposure to ESG-related investments would increase significantly over the next three years. Nearly 60% felt that ESG integration aligns with the values of pension scheme members.

Pat Sharman, a managing director at Caceis, said: "From a corporate citizenship perspective, as well as fiduciary requirement, implementing climate change and good ESG principles will be important for pension schemes of all shapes and sizes to help manage longer-term risks for the benefit of members."



CAMRADATA funds europe

STRENGTH IN NUMBERS

A Multi-channel approach

- Database
- Research
- Publishing
- Events

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