



“Integrating Sustainability into Investment Analytics: What the Market is Telling Us”

Billy Nauman - Reporter, Financial Times



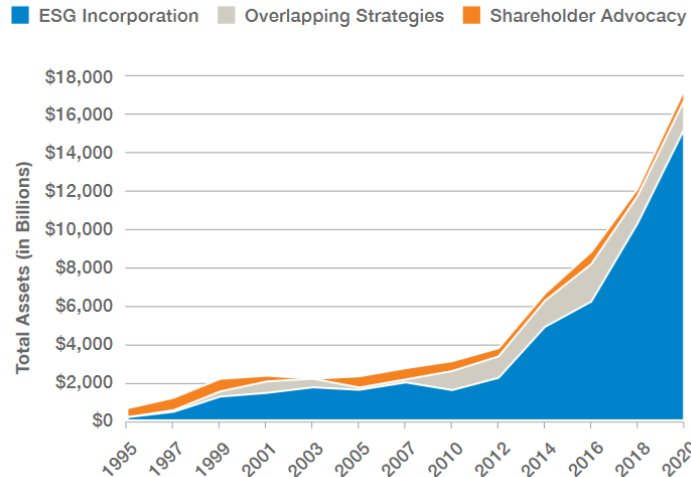
ESG: The basics

- Environmental, Social and Governance
- Positive vs Negative Screens
- Divestment vs. Engagement
- Long term risk analysis
 - Climate risk (transition vs physical)
 - Natural capital (biodiversity)
 - Social risks (labor strikes, consumer protests, supply chains)
 - Governance risks (internal controls, CEO oversight, scandal avoidance)

- Change the world
- Do no harm to the world
- Do no harm to our portfolio

Explosive AUM growth

FIGURE A
Sustainable Investing in the United States 1995–2020



US Sustainable AUM
(2020): **\$17.1 trillion**

This represents 33% of
the \$51.4 trillion in total
US assets under
professional
management.

Source: US SIF

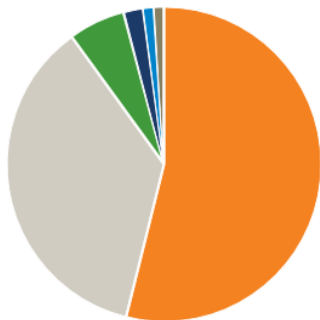
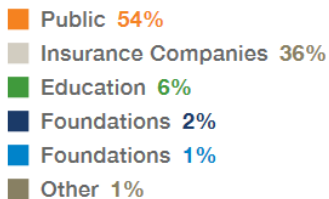
What about pensions?

US Inst'l ESG AUM:

\$6.2tn

Source: US SIF

FIGURE F
Institutional Investor ESG Assets,
by Investor Type, 2020

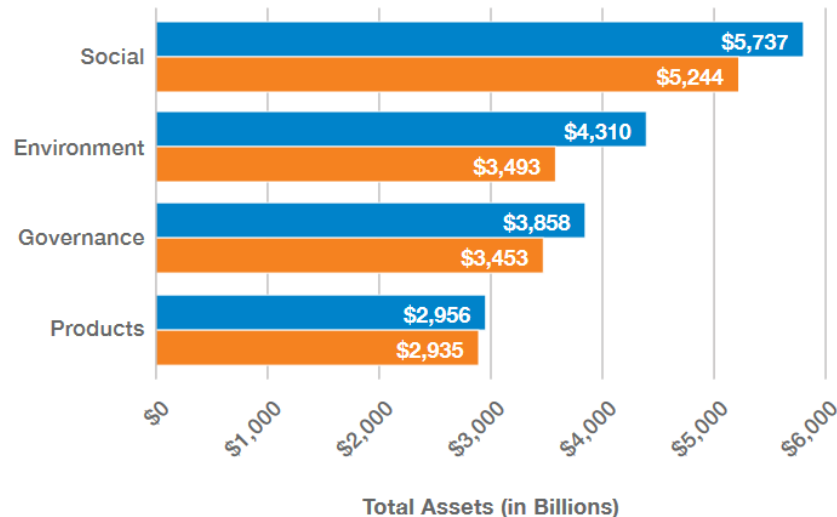


SOURCE: US SIF Foundation.

NOTE: Other consists of family offices, healthcare institutions, faith-based institutions and other nonprofits that collectively represent about 1 percent of ESG assets in 2020.

FIGURE G
ESG Categories Incorporated by Institutional Investors 2018–2020

■ 2020 ■ 2018



SOURCE: US SIF Foundation.

Examples

Climate Capital Divestment ✓ Added

New York state's \$226bn pension fund plans rolling fossil fuel divestments

Shift in strategy adds to pressure on US energy companies



Over the next four years the New York State Common Retirement Fund will conduct reviews of all the fossil fuel companies in its portfolio © AFP/Getty Images

Billy Nauman in New York DECEMBER 9 2020



FTfm Impact investing ✓ Added

Calpers, Schroders call for mandatory inclusion of climate risks in accounts

Big investors demand groups follow BP's example and consider global warming risk in financial statements



Bushfire in Canberra. Few companies properly incorporate climate change risk despite many groups proclaiming support for the Paris Agreement © Getty Images

Attracta Mooney AUGUST 15 2020



FTfm California State Teachers' Retirement System + Add to myFT

Calstrs plans green shift after Joe Biden's victory

The \$254bn pension fund hopes to cut emissions and boost eco-friendly investments



Calstrs, which serves almost 1m former and current public sector education workers, established a working group in 2019 charged with cutting climate-related risks in its portfolio © Myrleen Pearson/Alamy

Josephine Cumbo and Chris Flood DECEMBER 5 2020





DC is a different story

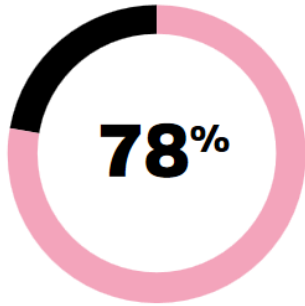
As of 2018, only **2.8%** of 401(k)s offered an ESG fund on their menu

Source: Plan Sponsor Council of America

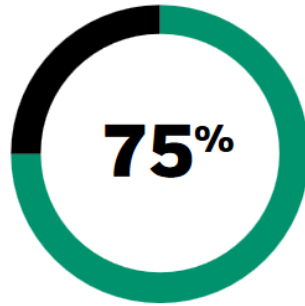
Why?

- Fiduciary duty
- Flip flopping ERISA guidance
- Product availability

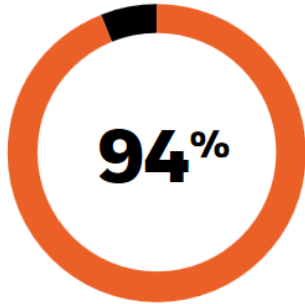
Figure 01: percentage of sustainable indices that have outperformed during downturns



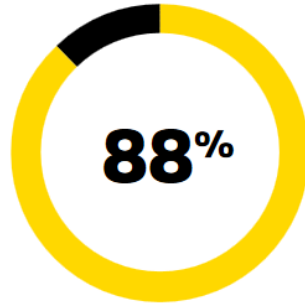
EM / energy downturn,
21 Jul 2015 - 11 Feb 2016.



Fed Policy reaction
20 Sep 2018 - 24 Dec 2018.



COVID-19 crisis Q1 2020.



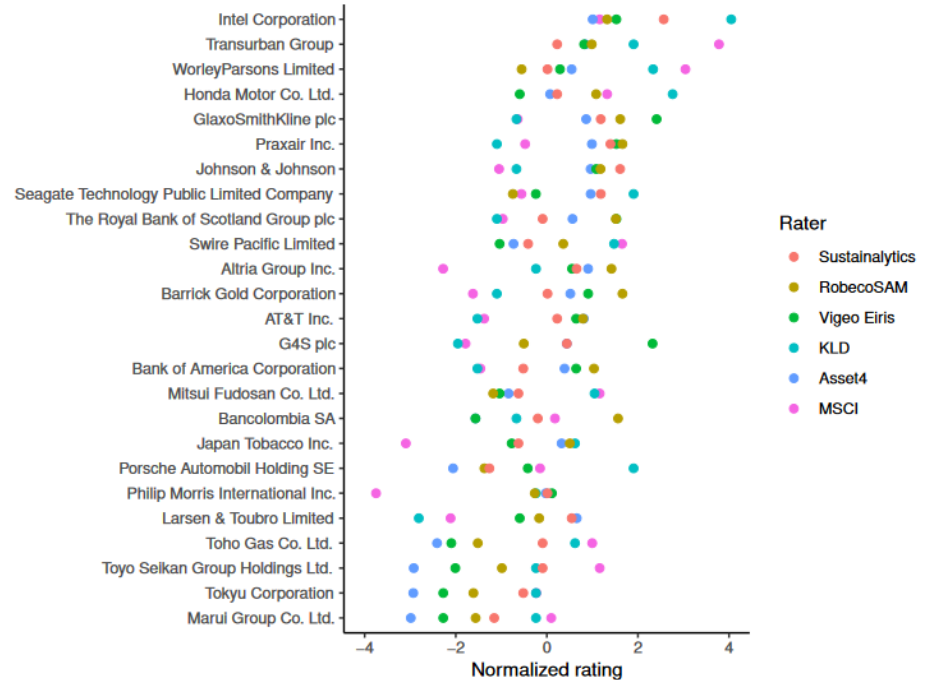
YTD 2020.

What about performance?

Source: BlackRock, as of May 11, 2020. For illustrative purposes only. This is a set of 32 globally-representative, widely analyzed sustainable indices and their non-sustainable counterparts. Indices are unmanaged and used for illustrative purposes only and are not intended to be indicative of any fund's performance. It is not possible to invest directly in an index.

Figure 2
Firms with high disagreement

Normalized ratings for the 25 firms with the highest mean absolute distance to the average rating (MAD) within the normalized common sample (n=924). Firms are sorted by their average rating. Each rating agency is plotted in a different color.



What makes a “good” company?

- Rating subjectivity
- Data challenges - non financial metrics
- Risk materiality



Disclosure metrics - Alphabet Soup

- SASB, GRI, TCFD, CDP, IIRC, CDSB, WRI, WEF IBC
- The EU: SFDR, NFRD and the Green Taxonomy
- Materiality
- Survey fatigue
- Verification/auditing
- IASB SSB... TBD?



Mandatory ESG disclosure in the US?

- SEC, CFTC, DOL turning over a new leaf under Biden
- BlackRock chief Larry Fink backing mandatory global disclosure framework
- Fed joins NGFS



Questions for the future

- Will ESG outperformance continue?
 - Tech/growth bias: <https://www.ft.com/content/12bd616e-442b-11ea-a43a-c4b328d9061c>
 - Bubble fears: <https://www.ft.com/content/0a3d0af8-7092-44c3-9c98-a513a22629be>
- Does ESG even work?
 - Companies ignoring engagement <https://www.ft.com/content/798f752a-5db1-498c-8d1d-6389b66f317d>
 - Things keep getting worse <https://www.ft.com/content/a967f863-1bf8-448b-9448-b67540e80b4d>
 - The failure of “Sustainability Inc.”: <https://hbr.org/2021/05/overselling-sustainability-reporting>



Sources and further reading

- <https://www.ussif.org/files/Trends%20Report%202020%20Executive%20Summary.pdf>
- <https://www.spglobal.com/en/research-insights/articles/what-is-the-s-in-esg>
- <https://www.spglobal.com/en/research-insights/articles/what-is-the-g-in-esg>
- “ESG funds defy havoc to ratchet huge inflows” <https://www.ft.com/content/8e9f8204-83bf-4217-bc9e-d89396279c5b>
- “Calstrs plans green shift after Joe Biden’s victory” <https://www.ft.com/content/6762a43d-79fe-471d-8f3b-41e2fb8f3835>
- “Calpers, Schrodgers call for mandatory inclusion of climate risks in accounts” <https://www.ft.com/content/09444686-e4da-4360-98ba-51fc670c3826>
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- “One small step for man, one giant leap for ESG accounting standards” <https://www.ft.com/content/210aa3f4-457d-42a4-9ccc-e8745b6d0f31>
- “Federal Reserve zeroes in on climate risk” <https://www.ft.com/content/c50d3b98-22b3-489f-8788-24ed50fb68d8>
- “Fink promises cultural change at BlackRock after discrimination allegations” <https://www.ft.com/content/1a00b465-374e-4eb9-921f-726ab5d33bc1>