YourQ&A

# How Can Managers Show ESG Commitment?

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***YourQ&A is your opportunity to get your questions answered by industry leaders.***

Q: Do you think ESG will cause substantial change to the investment process for a typical asset manager? Can an investment manager show commitment to ESG in ways other than joining the UN's Principles for Responsible Investment (PRI)? Or, has this become the global standard and required by asset owners? How important is being a PRI signatory to institutional consultants and clients?

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A: For an investment manager, the best way to show commitment to environmental, social and governance (ESG) investing is to demonstrate to asset owners and consultants how ESG is being integrated in the investment process. Once this process is established, the decision to join the United Nations-backed **Principles for Responsible Investment** (PRI) initiative can be straightforward and depends on the strategic direction that the investment firm is taking.

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In this respect, the "commitment" part is only on joining the UN's PRI. As a signatory, a member is amongst like-minded investors and managers around the globe who adhere to six guiding principles and share a wealth of information and resources on topics regarding ESG. But there is no "seal of approval" that is bestowed or "global standard" that is earned for being a member. Instead, there is the recognition that a firm's management and analysts have oriented the investment process towards integrating ESG.

Here are the six principles that PRI members agree to abide by:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the principles within the investment industry.

- We will work together to enhance our effectiveness in implementing the principles.

- We will each report on our activities and progress towards implementing the principles.

After speaking with many asset owners across the U.S., I have yet to see membership in the UN's PRI initiative as a requirement for consideration. However, there is interest to include ESG questions in RFPs, as is currently being done in many mandates from Australia and Europe.

In the U.S., the bar is moving higher, and it is not enough to just say that a firm is applying ESG. Indeed, consultants (such as Mercer) and analytics firms (such as MSCI) have geared up to evaluate the ESG integration claims put forth by asset managers. These types of reviews take the form of a due diligence process or portfolio attribution analysis where a manager can demonstrate its application of ESG.

With more than 1,000 signatories representing more than $30 trillion in assets, the UN's PRI has built an impressive organization since its launch in April 2006. But it has not developed into an auditor or accreditation society. Instead, it provides a forum where members can help define its policies and scope.

There is a good body of research on ESG integration, and the UN's PRI is active in this area as well. As a member of its ESG Integration Workgroup, I can say that in the early part of this year there will be an ESG Integration guidebook published where asset owners, managers and broker-dealers present case studies on ESG integration. The guidebook discusses integration at the broader macroeconomic and industry levels, as well as at the individual-security level.

The goal of asset owners in the UN's PRI is to encourage managers to integrate ESG into their investment process. But will this cause substantial change to how they invest? The answer is "it should not," because ESG can add value to the risk and return analyses of securities and strategies.