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## Quotient Sees Answers In Sustainable Alpha ESG Performance

Quotient Investors set out two years ago to demonstrate that a public equity strategy incorporating environmental, social and governance factors could deliver alpha versus traditional public equity benchmarks.

So far, so good.

The firm's Sustainable Alpha ESG strategy, which reached its two-year track record on Dec. 31, has returned 11.05% since inception, compared to 8.55% by its Russell 1000 Index benchmark and in 2011 the strategy ranked in the top quintile of domestic large-cap core equity managers.

"What time has shown and what we are very proud of is the approach we have taken has resulted in exactly what we said," said Andre Bertolotti, cio and director of investment strategy, at the firm. "It has been a very positive period for us."

The strategy was seeded two years ago by the California Public Employees Retirement System and currently has approximately \$103 million in assets.

And while the firm is also hoping to have funding from another client in the next couple of weeks, Julia Peter-Kerr, director of client service and sales, said that the firm hopes that reaching the two-year mark will garner more traction with institutions.

"We've been a little bit slower in the U.S. to embrace ESG, however we are making a lot of inroads," she said, adding that the firm has had meetings with a number of consultants with dedicated ESG research teams and is currently examining other potential investor options, including the nonprofit sector.

"We are beginning to explore that market and we believe that foundations in particular are a prime target for the strategy, especially those where this might align with their mission statements," she said.

Peter-Kerr said that environmental, social and governance factors are an alpha source for the strategy, which can be attractive in multi-manager portfolios because it is a different source of alpha than a lot of managers are using.

Bertolotti said that the variety of market environments over the past couple years has provided an opportunity to compare the firm's ESG portfolio to other general investment strategies. "We thought that it would be just sort of an alpha story that we would have, and

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*CIO & Director of Investment Strategy  
Quotient Investors*

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certainly the alpha has been very positive and very good, but it is also a volatility story," Bertolotti said, explaining that the strategy has showed less volatility and is reacting less to the downside of the market, a feature of the strategy the firm is currently analyzing.

Bertolotti said the data providers that provide managers and investors with ESG information have grown in resources over the past few years following a slew of acquisitions, which has resulted in a broader universe to evaluate.

He said another interesting pattern the strategy is picking up on is that companies that are leaders in ESG remain as leaders. "It is not like a PE ratio where one year you have a good PE and another year you have a bad PE," he said. "There is a stickiness to the rankings."

Along with its investment success, Quotient, which also reached its three-year track records for its domestic large-cap and small-cap growth and value strategies at the end of 2011, has also worked to become a thought leader in the ESG space and recently wrote a new ESG whitepaper entitled, Mainstream ESG Equity Allocations.

"I think the fact that we continue to have new insights and continue to write new papers and provide that information to plan sponsors and consultants is key to creating the long-term relationship with those folks," Peter-Kerr said. "You don't see immediate payoffs, but clearly I do believe it is a long-term strategy for our firm to help investors understand what we are doing, what we are thinking about and how we view the world."