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# ESG Investing – What are the opportunities for Financial Professionals?

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# Sustainalytics at a Glance

## Who We Are

- Largest pure-play investment research and ratings provider dedicated to RI and ESG research
- Over 300 professional staff with more than half engaged in research
- 25 years of experience in the fields of ESG and Corporate Governance research & analysis
- Strategic partner to Morningstar

## What We Do

- Serve over 400 institutional investors from 22 countries
- Provide comprehensive ESG and Corporate Governance ratings and research on more than 7,500 companies worldwide (including New Zealand and Australia)
- Help investors integrate ESG and Corporate Governance factors into their investment processes



# Defining ESG

## What is E, S and G?

- ESG refers to the *environmental, social and governance issues* associated with business activities. ESG-related factors are **a source of both risk and opportunities for companies and their investors.**
- Under each theme, E, S, and G, investors have identified specific issues or topics that require attention. **Careful management of ESG issues can contribute to business success and resiliency.**
- **How investors use ESG metrics and criteria often varies** across different asset classes and will depend on the goals of the investor.

# What is ESG?

	Examples of possible issues	Potential impact on company
Environmental	<ul style="list-style-type: none"><li>» Sustainability of products &amp; services</li><li>» Carbon intensity of operations</li><li>» Water use</li><li>» Resource management &amp; recycling</li></ul>	<ul style="list-style-type: none"><li>» Avoid or minimize environmental liabilities</li><li>» Increased energy efficiency (lower costs)</li><li>» Reduced regulatory risks</li><li>» Improved reputation</li></ul>
Social	<ul style="list-style-type: none"><li>» Health &amp; safety of employees</li><li>» Employee rights and diversity</li><li>» Community relations</li><li>» Human rights</li></ul>	<ul style="list-style-type: none"><li>» Improved employer brand &amp; reputation</li><li>» Better employee engagement</li><li>» Strengthen license to operate</li><li>» Reduced regulatory risks</li></ul>
Governance	<ul style="list-style-type: none"><li>» Executive remuneration</li><li>» Board structure, diversity &amp; experience</li><li>» Bribery &amp; corruption</li><li>» Lobbying</li></ul>	<ul style="list-style-type: none"><li>» Alignment of shareholders &amp; management</li><li>» Reduced regulatory risks</li><li>» Stronger reputation</li><li>» Less risk of accounting/financial scandals</li></ul>

# Primary ESG and Responsible Investment Strategies

## Values

- Includes strategies that appeal to the values of certain investors.
- Faith Based screening
- Ex-Tobacco screening
- Ex-Gaming screening
- Norms-based (Controversial Weapons, Global Compact) screening

## ESG Integration & Risk Management

- Looks at Best-in-Class ESG characteristics that are often used to capture a broader market while still mitigating ESG-related risks.
- ESG integration in stock selection i.e. including the top 50 percentile on ESG score names, excluding companies involved in severe controversial activity

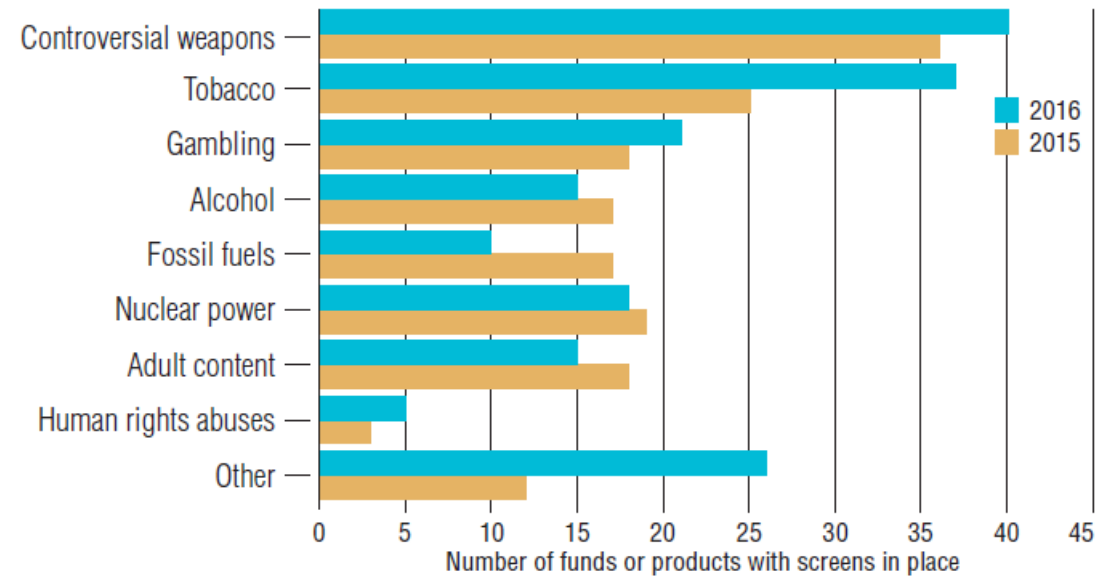
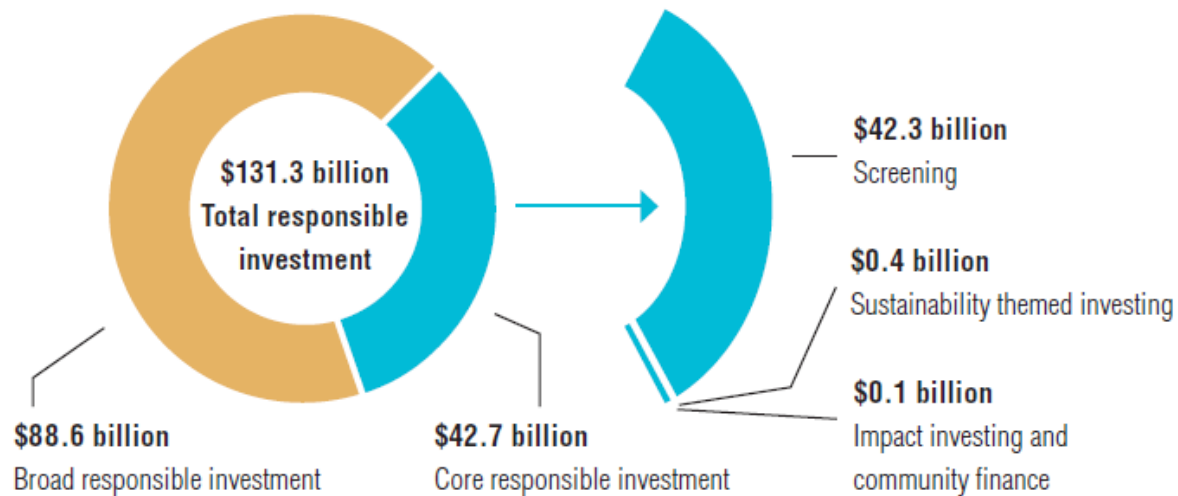
## Thematic / Impact

- Includes strategies that capture companies creating a positive societal or environmental impact.
- Clean Energy
- Clean Tech
- Low Carbon
- Water
- Gender Diversity
- Workplace Conditions

# Opportunities in Sustainable Investing

# Market Update

New Zealand is experiencing significant growth



- The New Zealand market has seen a significant shift towards responsible investing, with a growth of 67% compared to the previous year.
- Significant increase of negatively screened funds, due to KiwiSaver funds putting in place tobacco and controversial weapons screens.

# The Growth of Sustainable Investing

## 25%

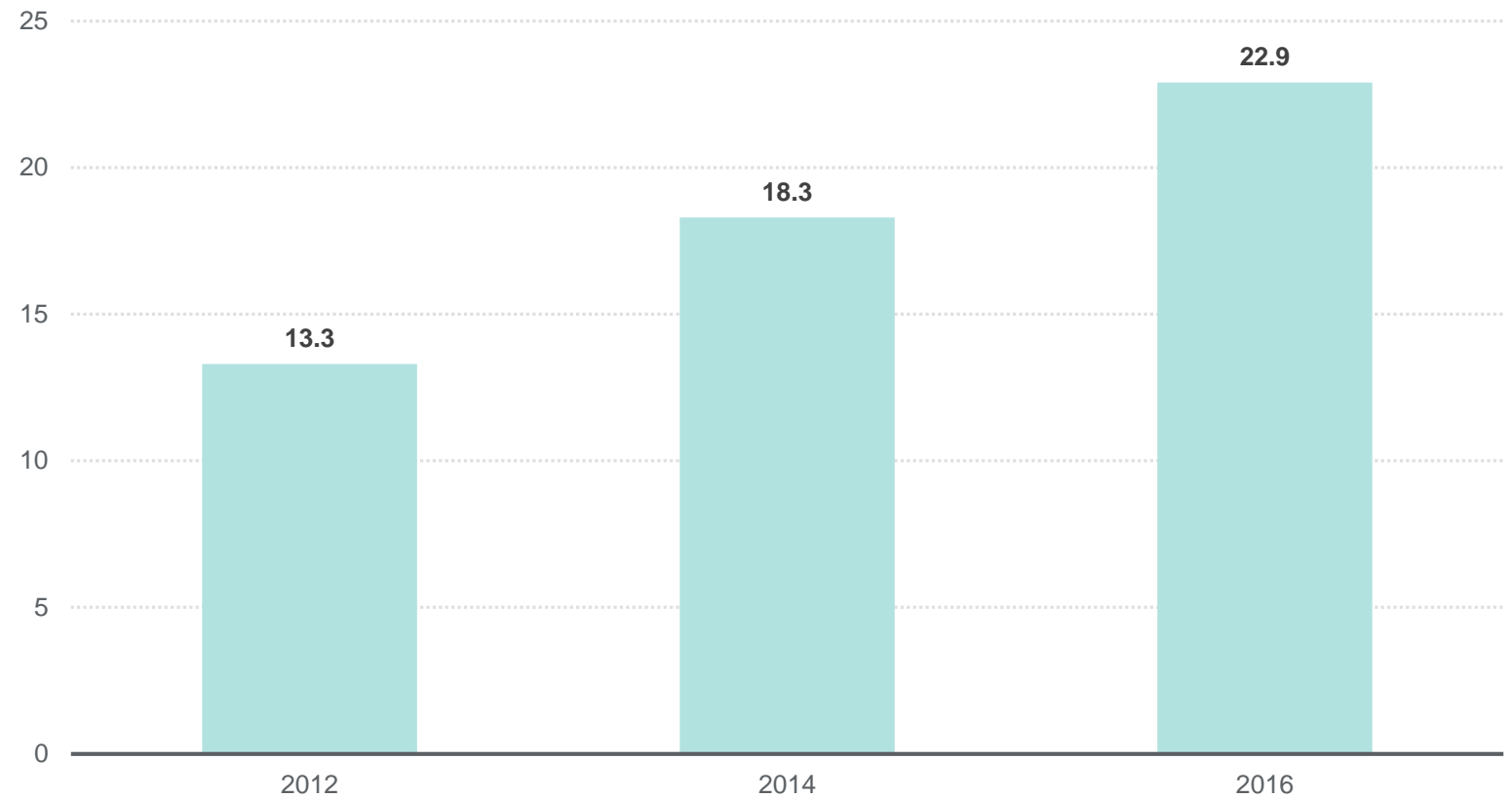
Global growth from 2014 to 2016  
(surpassing the size of the entire  
US GDP of 18.6tn in 2016)

## 26%

Of all professionally managed  
assets incorporate some ESG  
criteria

Source: GSIA Trends Report 2016

### Growth of Responsible Assets in USD Trillions (2012-2016)

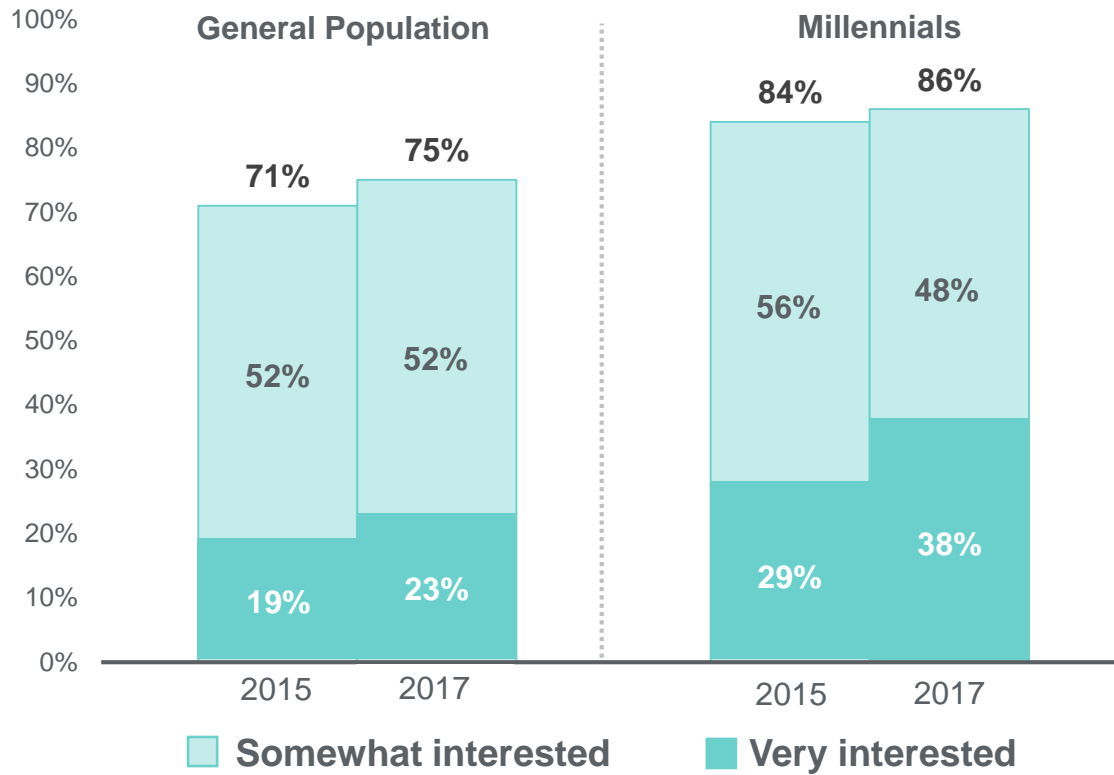


Source: GSIA Trends Report 2016

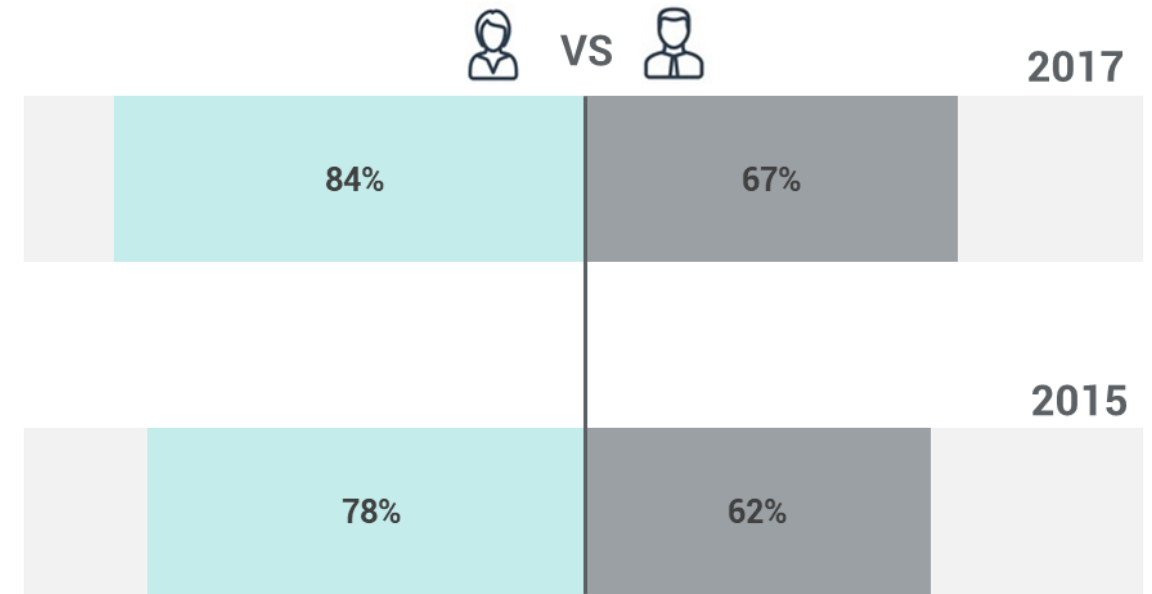


# Macro Trends: Millennials and Women Lead the Charge

## Millennials are particularly interested in sustainable investing (2015-2017)



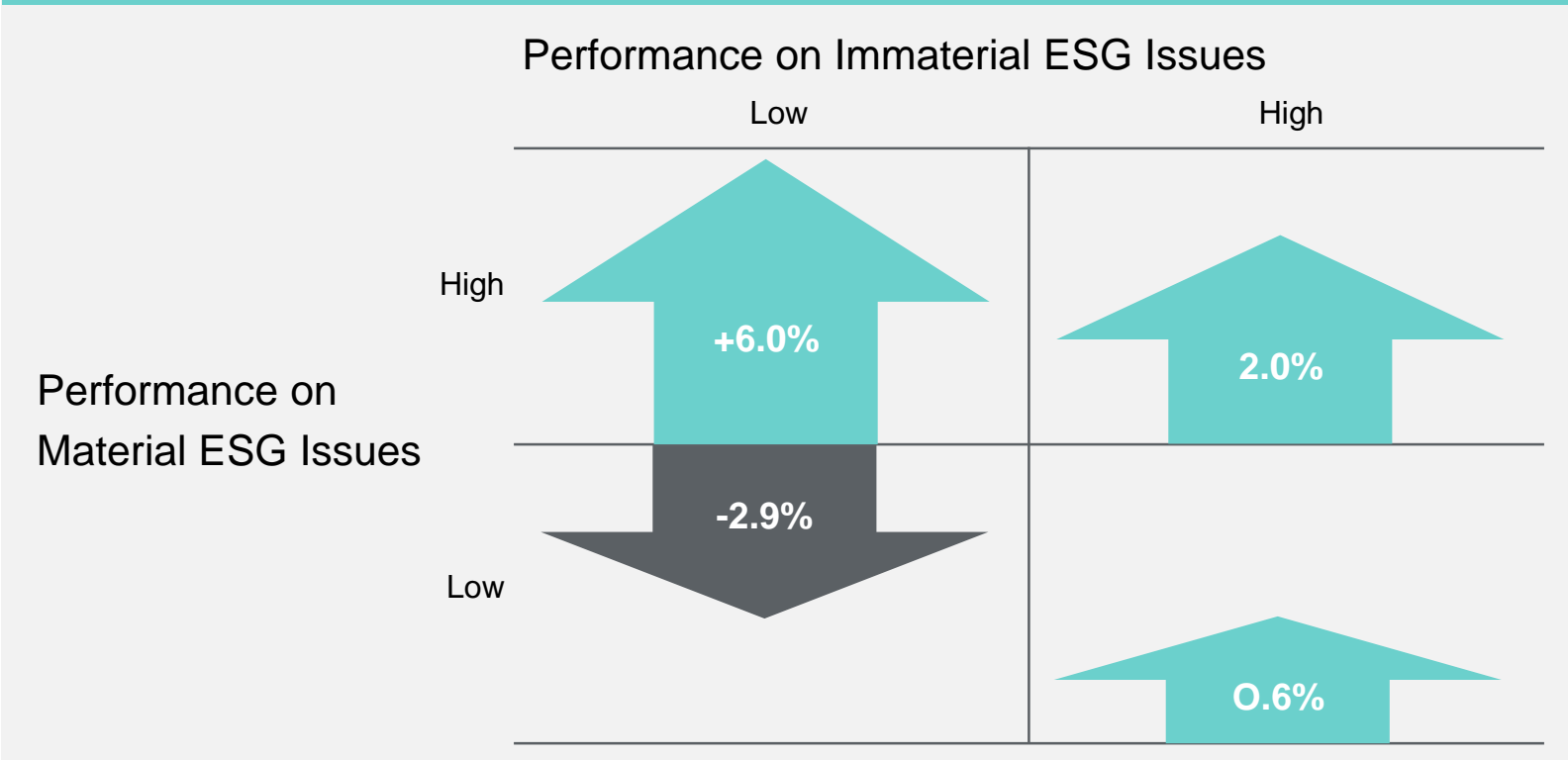
## Women of all ages show the strongest interest in sustainable investing (2015-2017)



Source: Institute for Sustainable Investing's 2017 "Sustainable Signals" report

### 3. Financial Materiality: New Studies Prove Sustainability Matters

Stock Performance on Material & Immaterial ESG Issues (annualized alpha)  
(n=2,307 from 45 industries in 6 sectors between 1992 and 2012)



*“...firms with good performance on material sustainability issues significantly outperform firms with poor performance on these issues, suggesting that investments in sustainability issues are shareholder-value enhancing.”*

The study tested the effects of the SASB’s material factors, accounting for the effects of firm size, market-to-book ratio, profitability, leverage and sector fixed effects.

**Source:** Khan, M., Serafeim, G. and Yoon, A. (2015). Corporate Sustainability: First Evidence on Materiality. SSRN Electronic Journal.

# Why Now?

The opportunity

## Motivations for Seeking Positive Impact

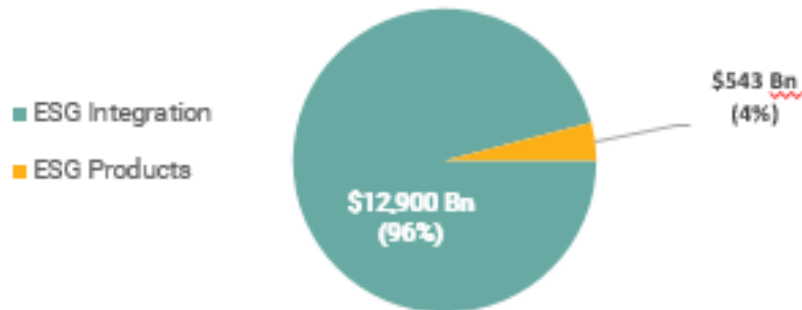
Supply of Product

Client Demand

Supply must catch up with demand



"I want my investment to make a positive impact on society."



Source: TIAA Annual Practice Management Study, Responsible Investment: Advisor and investor interest is rising. However old myths still exist., TIAA Global Asset Management, 2016.

# More ESG Products for Investors

## Morningstar Fund Sustainability Ratings and Product Involvement Screener

### Morningstar Fund Data

Name	Morningstar Category
1 Fund 1	US OE Large Growth
2 Fund 2	US OE Large Blend
3 Fund 3	US OE Large Value
4 Fund 4	US OE Large Blend
5 Fund 5	US OE Large Value
6 Fund 6	US OE Large Growth
7 Fund 7	US OE Large Blend
8 Fund 8	US OE Large Growth
9 Fund 9	US OE Large Growth
10 Fund 10	US OE Large Growth
11 Fund 11	US OE Large Blend
12 Fund 12	US OE Large Growth
13 Fund 13	US OE Large Growth

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### Sustainalytics Company-Level Research

- Company ESG Scores**  
Overall ESG Score (0-100)
- Controversy Scores**  
Severity (1, Low–5, High)  
*Controversies are incidents that impact the environment or society and pose risks to the company involved*



### Morningstar Portfolio Sustainability Score

- ▶ Sustainalytics' company ESG scores are normalized across sectors
- ▶ Asset-weighted roll up of company ESG scores with deduction made for holdings with controversies
- ▶ Company analytics apply to stocks and corporate bonds
- ▶ 50% of portfolio assets must have company ESG scores



### Morningstar Sustainability Rating™

- ▶ Portfolio Sustainability Score relative to Morningstar Category
- ▶ Percent of funds in category:
  - High 10%
  - Above Average 22.5%
  - Average 35%
  - Below Average 22.5%
  - Low 10%



### Morningstar Product Integration

- ▶ Morningstar® Data
- ▶ Morningstar® Direct™
- ▶ Morningstar® Essentials™
- ▶ Morningstar® Office™
- ▶ Morningstar® Quicktakes

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