

OVERVIEW

- Environmental, Social, Governance (ESG) investing has garnered growing momentum, evolving beyond simply incorporating personal values.
- Investment plans can incorporate ESG through a variety of approaches based upon their unique needs and initiatives.
- A heightened focus on asset manager due diligence distinguishes the spectrum of ESG investment offerings and highlights the realities and implications of an industry lacking consensus on terminology and expectations.

Background


ACG has worked with clients in their development of ESG related investment policies and investment programs for three decades. We view ESG investing as a spectrum of implementation options that can meet the unique needs, objectives and initiatives of investors. Much of the growth in ESG has been within integration as a growing number of “non-ESG” asset managers have developed an explicit approach to ESG investing aimed at improved risk-adjusted returns.

Simplifying ESG’s Broad Definitions

Industry terminology has expanded along with the evolution of the ESG landscape. This can create confusion among the investing community and thus can lead to more investor inaction than action. Our ESG Subcommittee establishes processes and initiatives that are ultimately reviewed and approved by ACG’s Investment Committee to maintain a consistent approach, philosophy, and process applied to analyzing the spectrum of ESG offerings.

We have simplified the classification of the ESG investment spectrum into three broad categories for our clients: Screening Based, ESG Integration, and Impact/Thematic. The classifications, while not mutually exclusive, have helped our clients better understand the various offerings available to integrate ESG into their investment plans and long-term goals.

Screening Based




- Exclusionary Screening (ex. SRI)
- Positive alignment/Best-in-class
- Passive Offerings
- Exclusions could cause a return give-up; Positive screening and passive focus on competitive or index like returns

ESG Integration



- Financial analysis integrating ESG risks and/or opportunities
- Focus on **materiality**
- Meaningful growth in this area within traditional portfolio management processes
- Expectation of **competitive financial returns**

Impact/Thematic



- Targeted ESG-related initiatives
- Focus on **measurable** impact
- Thematic investing
- Could include primary objective of socio-economic goals with secondary focus on financial returns

ACG’s Qualitative Approach

We complement our traditional due diligence process with a deep review across all asset classes of individual managers’ ESG focus and capabilities to better understand where a strategy falls along the ESG spectrum. We encourage all managers to report their ESG efforts on a periodic basis using our RFI process with a thorough ESG questionnaire and disclose ESG data to third-party sources to increase and improve transparency and efficiency. ACG also requests manager holdings where applicable to allow for the use of additional tools to independently verify ESG claims and track ESG trends over time. For managers who identify as ESG dedicated, reporting may also include specific ESG milestones and metrics to gauge the success of the program.

Evaluating Personal Preferences in an ESG Lens

Determining how and where a client should invest on the ESG spectrum is a critical factor for successfully incorporating ESG considerations into an individual client’s unique investment program. ACG uses a proprietary ESG questionnaire to extract and highlight unique personal values, motivation for impact, desire to drive change and overall portfolio investment goals. This serves as a starting point for additional dialogue regarding the range and scope of ESG factors of interest to help identify how best to incorporate ESG considerations and maintain long-term financial goals that best fit each individual client’s situation and preferences. Using a questionnaire process is particularly effective for investment entities that have multiple stakeholders as it allows us at ACG to anonymously obtain potentially different perspectives and aggregate the group to build a consensus approach.

ACG’s Position

While the scope of ESG investing has expanded significantly, ESG investing at its core includes incorporating material ESG-related factors into investment decisions and considering the resulting impact on long-term portfolio risk and return. ACG’s ESG investment process is designed to identify client-specific ESG objectives and any potential tradeoffs in order to determine optimal points of investment across the ESG spectrum and successfully build a long-term investing plan.

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