



SECOND QUARTER 2018

A quarterly update on the latest trends and developments in ESG integration



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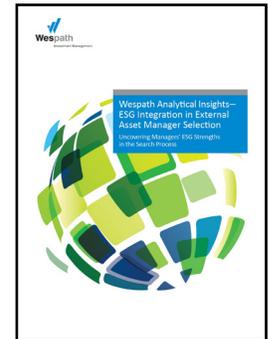
ESG Integration in External Asset Manager Selection ([link](#))

This report from Wespath, the \$24 billion pension fund of the United Methodist Church, describes how they incorporate an assessment of investment managers' ESG competencies into the RFP process.

Some highlights:

- Wespath believes that *"...the intentional integration of ESG factors in the selection and management of investments positively affects long-term performance."*
- The ESG assessment is conducted at both the firm and the strategy level.
- The strategy assessment focuses on the process of considering ESG factors, not on scoring the securities held in the portfolio.
- Materiality - emphasis is placed on understanding how managers decided which issues are relevant for different industries and individual companies.
- Traditional and ESG criteria are evaluated within the same framework. It is an integrated assessment.

This report compliments one published last year that describes Wespath's process for evaluating current external asset managers on ESG integration. The questionnaire on p.13 is particularly useful. ([Link](#)).



What is *authentic* ESG integration?

A recent paper (just six pages) by Invesco and Danske Bank provides some insights on the state of ESG integration and the need to assess managers' processes. Some highlights:

- "...ESG issues should be considered as factors alongside financial factors..." and "...should be managed from a risk-and-return perspective to support better-informed investment decisions."
- "...many approaches to ESG integration might – or already have – become box-ticking exercises that contribute little genuine insight or worth to asset managers and asset owners alike."
- ESG standards can promote a one-size-fits-all approach where "too much is measured and not enough is understood..."

Lost in Translation - In Search of Authenticity in ESG integration, Invesco and Danske Bank ([link](#))

Asset Owners Focusing on ESG Integration

Recently, several states and cities have pledged to pursue ESG integration in the assets they manage. Becoming a signatory to the Principles for Responsible Investment (PRI) is one means of expressing that commitment.

- In June, the City of **Chicago** announced that it will integrate ESG issues into how it manages its \$8 billion treasury assets and that it may pursue doing so with Chicago's pension funds (\$25 billion). Chicago will also become a signatory to the PRI.
- In May, **Hawaii's** Employees' Retirement System (\$17 billion) became a PRI signatory ([link](#)).
- Last fall, the employees' retirement systems of **San Francisco** (\$22 billion) and **Seattle** (\$3 billion, [link](#)) became PRI signatories.
- The state of **Illinois** is pursuing ESG integration across its \$28 billion portfolio ([link](#))

Surveys: Growing Interest in ESG

Three recent surveys point to increasing interest in ESG integration among institutional investors and high-net-worth individuals.

Among institutional Investors:

- 70% are pursuing ESG integration, and another 14% are actively considering it (MS)
- 50% began pursuing ESG integration within the past four years; 27% within the past two years (MS)
- Regarding sustainable investing, 78% believe risk management is an important factor, and 77% focus on generating returns (MS)
- 68% consider responsible investing important (Aon)
- 29% delegate responsible investing to consultants (Aon)
- 40% have a responsible investing policy, and another 14% are developing one (Aon)
- 39% pursue ESG integration to improve investment decisions (Aon)



Among American HNWI's:

- Two-thirds of Generation X and Millennials (born between 1965-2000) feel a responsibility to use their wealth to benefit society, compared to 39% of older generations (RBC)
- 29% of Generation X and Millennials align their investments with their giving goals, compared to 12% of older generations (RBC)

Globally:

- Two-thirds of women are thinking about impact investing, compared to 56% of men (RBC)

Aon: Global Perspectives on Responsible Investing ([link](#))

Morgan Stanley: Sustainable Signals, Asset Owners Embrace Sustainability ([link](#))

RBC survey results on generational differences ([link](#)) ([link](#)) and gender differences ([link](#))

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