



## FIRST QUARTER 2018



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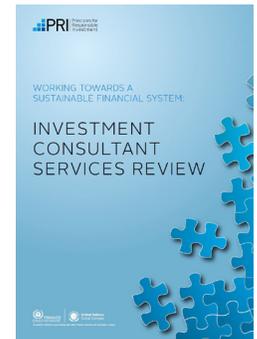
## *A quarterly update on the latest trends and developments in ESG integration*

### Investment Consultant Services Review ([link](#))

This report by the Principles for Responsible Investment explores attitudes and practices among investment consultants towards ESG integration.

Key takeaways are that there exists:

- Confusion about the goal of ESG integration – is it about ethics or about financial performance?
- Skepticism among consultants that ESG integration can enhance investment performance
- A lack of clarity about how to assess investment managers on ESG integration and its impact on performance
- The belief that ESG-related research is an additional cost to be charged to clients



Commentary: investment consultants that incorporate a materiality-based ESG evaluation into the due diligence process can add value to their clients through identifying the best investment managers regardless of whether clients explicitly ask for ESG.

More info from the PRI can be found [here](#).

### 2018 ESG Trends

Sustainalytics and MSCI are the two largest ESG research vendors. Every year, they identify which ESG trends and developments they anticipate being most impactful in the near future.



#### Highlights from 10 for 2018

- Water Management
- Climate Change
- Consumer Protection
- Stakeholder Governance

[Link](#) to report



#### 2018 ESG Trends to Watch

- ESG in emerging markets
- Climate Change
- ESG in fixed income
- Increasing sources of information
- Human capital

[Link](#) to report

Every company is affected by **climate change**; portfolio managers must assess how both severe weather events and gradually changing weather patterns can affect companies' costs, revenues, and competitive advantages.

**Consumer protection** and data security are key material issues at many companies. Costs of breaches includes reputational impacts and the expense of luring back skeptical customers.

**ESG in fixed income** is coming in to its own, with the expansion of FI-specific ESG research and the growth in ESG FI investment products.

## ESG Research Vendor Developments

Firms are making investments and acquisitions to expand their ESG research capabilities.

### Sustainalytics

- In March 2018, acquired personnel from Solaron Sustainability Services based in India to augment their emerging markets research.
- In July 2017, Morningstar acquired 40% of Sustainalytics. This follows on the partnership between the two firms that led to the publication of ESG 'Globe' ratings on 20,000+ mutual funds on Morningstar's website.

### Institutional Shareholder Services (ISS)

- In March 2018, acquired oekom research AG based in Germany. oekom focuses on environmental and social performance, which complements ISS's governance capabilities.
- In June 2017, acquired the Investment Climate Data Division of South Pole Group.
- In January 2017, acquired ESG research provider IW Financial.

### MSCI

- MSCI's ESG-dedicated staff has tripled since 2010.

## ESG Performance Disclosure

Companies are improving their ESG performance reporting by focusing on those issues that drive financial performance and competitive advantage and that are of interest to mainstream investors.

The **Sustainability Accounting Standards Board (SASB)** ([link](#)) has developed unique ESG materiality standards for 79 different industries, which are being incorporated into the reporting of several companies including Alaska Air, GlaxoSmithKline, Philip Morris, and TOTAL SA.

In 2017, the **Strategic Investor Initiative** ([link](#)) of New York-based CECP launched a series of CEO Investor Forums during which CEOs present to investors on their company's long-term sustainability strategy including which ESG issues they are prioritizing and investing in. Presenting companies have included:

- |                   |                     |               |
|-------------------|---------------------|---------------|
| • Aetna           | • Johnson & Johnson | • UPS         |
| • Allstate        | • Merck             | • Vanguard    |
| • CA Technologies | • PG&E              | • Wells Fargo |
| • Humana          | • Prudential        |               |
| • IBM             | • Unilever          |               |

At the September 2017 forum, SASB's Katie Schmitz Eulitt provided an insightful presentation on the rationale for companies to report on material ESG factors and for investors to incorporate them into their investment decision making. ([video link](#))

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