

RI TOOL: A PORTFOLIO MANAGER'S PERSPECTIVE

RESPONSIBLE INVESTMENT | MARCH 2019



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Our proprietary responsible investment ratings is an innovative tool that combines ESG and financial stewardship data to create a single company rating for 5,500 listed equities globally. So how do our PMs use it?

How do the ratings improve portfolio management?

A company's financial sustainability is linked to the sustainability of its business model and the quality of its management.

RI ratings provide evidence of this – back-testing shows that better-rated companies outperform and worse-rated underperform. The ratings give us a consistent, detailed dataset to assess the quality and sustainability of the companies we hold. These concepts – quality and sustainability – lie at the heart of our approach. The logical and necessary evolution is to include RI factors in the analysis.

What is the particular advantage in the combined nature of the ratings – looking at both traditional ESG metrics and financial stewardship?

The third-party ESG ratings originated in a vacuum and are not designed to help investment decision-making. Material ESG issues – the ones most likely to drive a share price – are often clouded by peripheral distractions or legacy controversies. They don't address the quality and prudence of accounting and capital management: these fall outside traditional ESG analysis but are key to the stewardship of a business.

By contrast, our RI ratings focus on the most material ESG issues as well as accounting and financial stewardship models. They use frameworks agreed by industry experts and supported by academic research; likely outcomes can be derived from robust back-testing.

Are there specific themes or issues which the ratings have highlighted to you?

Climate-related risks are highlighted in more than 90% of the industry models within the RI ratings. We analyse complimentary data, for instance carbon emissions and water intensity, as this helps us optimise portfolio management, meeting clients' objectives, as well as helping us monitor and report to clients.

Will you use the ratings as part of a risk management toolset?

The ratings help us in the risk discovery process. They are insightful not only for fund management but across other areas of our business, for instance portfolio and risk monitoring.

Clients and regulators are increasingly focused on this area, and there is an underlying dynamic at play. Sustainability-related risks increasingly shape economic reality. Investment firms with the awareness and information to anticipate them will be best placed for the future.

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