



GOVERNANCE & ACCOUNTABILITY INSTITUTE'S

TO THE POINT™



Timely News, Insights & Perspectives on Corporate Sustainability, Responsibility & Citizenship

January 2018

Governance & Accountability Institute shares timely news, insights and perspectives with corporate managers in key topic areas:

- Corporate Citizenship,
- Corporate Responsibility,
- Corporate Sustainability,
- Community Affairs, and
- Sustainable Investing.

To the Point! is a fee-based educational resource for corporate executives and managers distributed each month with periodic brief updates for critical items.

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FINANCIAL ANALYSTS & CORPORATE ESG EVALUATION — The CFA Institute Provides Guidance For Analyst & Investment Professionals

The CFA Institute mission is to

“...lead the investment profession globally by promoting the highest standards of ethics, education and professional excellence for the ultimate benefit of society.”

The Institute has a number of credentialing programs, such as the Chartered Financial Analyst (CFA); this is the hiring standard for 31,000 investment firms worldwide.

“CFA” is an important designation for financial analysts and other professionals: Companies at the top ranks in hiring credentialed CFAs include: **JPMorgan Chase; Bank of America; Merrill Lynch; UBS; RBC; HSBC; Wells Fargo; Credit Suisse; Morgan Stanley; Smith Barney; BlackRock; and, Citigroup.**



There are three CFA levels – Investment Tools; Asset Valuation; Portfolio Management.

Keep in mind there are 135,000-plus “charterholders” worldwide; they can participate in a local chapter.

The largest chapter is **The CFA Society of New York**, with 9,000 members. (this was formerly known as the **New York Society of Securities Analysts**, or “**NYSSA**” and was the founding organization of what over time became CFA Institute (which is based in Charlottesville, Virginia today).

With this as background, you should be aware of this:

CFA Institute in October 2015 published a **Guide for Investment Professionals: “Environmental, Social and Governance Issues in Investing.”** The Guide provided extensive background on the growth of ESG considerations in investment, and set out “six methods for considering ESG issues.” These are:





Theme 1: Exclusionary Screening

Avoiding securities of companies or countries on the basis of traditional moral values, such as alcohol, tobacco, gambling and domestic and global “standards and norms” of society. This is the oldest of ESG approaches. **FTSE4Good** uses this approach to screen out companies for its indexes.

Theme 2: Best-in-Class Selection

This determines the “relative position” of companies to peers in their industry using ESG scoring, considering both risk and opportunity. This, explains CFA Institute, considers 150 or more ESG factors. **RobecoSAM Group** uses this approach in the selection of companies for its **DJSI Indexes**.

Theme 3: Active Ownership

This approach features active engagement and dialogue between investor and company on ESG issues. The investor exercises “ownership rights” and voice to effect change.

We see this type of engagement peak each year during the annual corporate proxy voting process. Where “engagement” is perceived to have failed to effect change, campaigns launched focused on issues by the company’s investors can put a company in the media headlines, and attract other investors to support the investment-proponents leading the charge.

Theme 4: Thematic Investing

Think of trends – in social, industrial, demographic, economic spheres, etc. – and the investment themes that are based on developments in each category. *Cleantech; “green” real estate; sustainable forestry; agriculture & food; education; healthcare* – these are some thematic investment categories.

“**Air and Water**” themed funds are an example of more recent investable products offered in the capital markets.

Theme 5: Impact Investing

This is an approach to investing that is designed to (1) generate a financial return and (2) have a measurable “S” (social) and “E” (environmental) benefit as well. There are four characteristics of this, the Guide explains (these are identified by **Global Impact Investing Network – GIIN**):

- Investors want an “S” and “E” impact.
- They expect a financial return as well. And, at a minimum, the return of capital invested.
- Returns could be below-market or risk-adjusted.
- Investors are committed to measuring and reporting the S and E impacts.



An example is **SimplySwitch**, which offers free online and telephone-based comparison and switching service that offers consumers information on gas, electric, home phone, broadband, and mobile phone suppliers. The UK service when sold represented a 22-times return (“money multiple”) for its investors.

Theme 6: ESG Integration

This is the systematic and “explicit” *inclusion* of corporate ESG risks and opportunities in the investment analysis.

This is the fast-growing approach being adopted by major investment houses such as **MSCI, Goldman Sachs, Morgan Stanley**, and other bold names in the capital markets. An “army” of ESG / sustainability analytics service providers in the USA, Europe, and other regions provides advice (scores, rankings, ratings, “best of lists”, etc) to asset owners and managers.

“The integration of ESG risk and opportunities into investment analysis is relevant for most if not all investors,” the Guide states.

Consider: More than half of investment professionals recently surveyed by CFA Institute used ESG integration, and it is becoming more common among investment professionals in the “whole investment analysis and decision-making process.”

ESG Content in the CFA Program Curriculum

Since 2015 the CFA curriculum has included ESG issues and responsible investing in the three levels, such as:

- Level I: “G” – Corporate Governance in Focus
- Level II: Corporate Governance and ESG Risks
- Level III: Fixed-Income and Equity Portfolio Management, SRI.

CFA Institute has been providing educational content on ESG issues in investing for many years, in the effort to educate and inform new and long-time CFA charterholders. An early publication was in 2008: *“ESG Factors at Listed Companies: A Manual For Investors.”*



We might ask, what progress has been made since the 2008 and 2015 Guide(s) were published?

GLOBAL PERCEPTIONS OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) INVESTING 2017



- Risk analysis and client demand** were the main reasons to take ESG integration into consideration.

Looking to the Future

- 55% said lack of appropriate quant ESG information.
- 50% said lack of comparability over time periods.
- 45% questioned data quality.

ESG Investing Varies by Region

- 85% of those survey in Europe/Middle East take ESG issues into account.
- 81% in Asia Pacific (APAC) do so.
- 68% in the Americas do so.



And something to keep in mind for today and the long-term: the younger the generation, the more likely the cohort is to consider ESG in their investing:

- For Millennials, 78%.
- Gen-Xers, 74%.
- Baby Boomers, 68%.

There are also gender differences:

- 62% of women systematically consider ESG issues in their analysis.
- 49% of men do.

And...

- 18% of women say ESG issues are *not* material or add no value to analysis and decision-making.
- 46% of men have the same view.

Keep this in mind, too, as you consider the E,S & G strategies and actions, programs of your company – those in the investment community who consider ESG in investing put emphasis on:

- Governance – 67% for both genders;
- Social – 53% (60% for women);
- Environmental – 52% men, 62% women.

G&A Institute Perspectives

Co-founders **Hank Boerner** and **Louis Coppola** are active in the **CFA Society/New York**; Hank served as Chair of the chapter's **Sustainable Investing Committee**. Both have been involved in the ongoing discussions for the development of the CFA Institute guidance for charterholders.

G&A maintains close working relationships with a range of analytical firms specializing in ESG analysis and recommendations (including assigning rankings, ratings, scores and other opinions for investor-clients).

The G&A team works with corporate clients in developing, enhancing, communicating critical information about the [corporate] sustainability journey to asset owners, asset managers, financial analysts, and the corps of third party ESG data providers.

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Resources

Environmental, Social and Governance Issues in Investing” A Guide for Investment Professionals (Published October 2015)

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Resources:

More information on the CFA Charterholders:

https://www.cfainstitute.org/programs/cfaprogram/Documents/cfa_charter_factsheet.pdf

More about CFA Institute and ESG:

<https://www.cfainstitute.org/learning/future/Pages/esg.aspx?PageName=searchresults&ResultsPage=1>

The 2017 survey highlights are here:

https://www.cfainstitute.org/learning/future/Documents/RGB_Digital%20brochure.pdf