COLUMBIA THREADNEEDLE INVESTMENTS

Multi-Manager Perspectives

ESG – and why it matters

ESG investing has moved mainstream. For many years, consideration of Environmental, Social and Governance (ESG) factors has largely been viewed as a niche activity. That's changed, with two key factors driving the shift.

First is the wider recognition of their importance from a risk and reward perspective. There are countless examples of businesses failing to manage risks appropriately and then paying the price. Think BP and the Deepwater Oil disaster or VW's emissions scandal to name just two. The flip side is the opportunities presented by a world transitioning to a more sustainable footing – companies offering solutions to problems like climate change look well placed. Second, many investors now appreciate these factors and are keen to do their bit with their own investment decisions – you need only look at the proliferation of ESG-related investment products in today's funds marketplace.

We're often asked for our perspective and approach to ESG in terms of how we select managers for inclusion in our portfolios. We like to think the way we invest is a sensible one and at its core sits an emphasis on really getting to know managers – their philosophy, the team and environment they work in, and the process they adopt.

> "We ideally want to see managers integrate ESG into how they assess potential investments from a risk/reward perspective"

Key risks

The value of investments and any income from them can go down as well as up and investors may not get back the original amount invested.

The information, opinions, estimates or forecasts contained in this document were obtained from sources reasonably believed to be reliable and are subject to change at any time.

Their consideration and management of risk is key, and this is where we really focus on ESG. We ideally want to see managers integrate ESG into how they assess potential investments from a risk/reward perspective and take time exploring how this is achieved as part of the investment process. It is important to get granular here. Why? Because asset managers are increasingly keen to promote their ESG credentials – we want to see evidence and measure what and how ESG factors are integrated into decision making. To help quantify this, we score each holding based on their approach to ESG – these ratings are actively maintained and updated as part of our regular review process.

Scoring ESG – we allocate one of five ratings to each fund we research.

Gold

- Full integration
- Extra resource
- Invest in sustainability

Silver

- Consider ESG
- Extra resource
- Investment not driven by ESG alone

Bronze

- Consider ESG
- No extra resources
- No separate ESG score

Non Runner

- Asset class is not suitable for ESG

Disqualified

- Apply no ESG active engagement

'Non Runner' – this applies to asset classes or approaches with limited scope for ESG integration such as Government Bonds and passive strategies.

We have no funds in our portfolios that fall into our 'Disqualified' category.

Where from here?

It's important to note that we are seeing a positive direction of travel in terms of the resource asset managers are allocating to ESG – many are bolstering their ESG expertise, systems, data feeds etc. At the same time, we recognise that as ESG's profile has risen, so have some of the claims made by product providers. ESG investing encompasses a host of approaches and there are factors like consistency of data to be assessed and understood. We look for full transparency, a proper understanding from the management team and real evidence of ESG integration.

Our view is that ESG is here to stay and we are seeing managers begin to trend upwards on our scoring system – this is good news.

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