

FOR PROFESSIONAL INVESTORS ONLY

Fund Dashboard: ESG Integration Methodology

FUND DASHBOARD: ESG INTEGRATION METHODOLOGY



Source: Square Mile and FE fundinfo

The consideration of ESG factors is of growing importance in asset management. Successful approaches are increasingly being used to great advantage both to enhance returns and, perhaps more importantly, to understand and manage risk. Furthermore, the consideration and integration of ESG factors is of interest to many investors.

The consideration of ESG factors is increasingly being integrated into investment processes. We have developed an approach to analysing and articulating the various approaches to ESG integration which inform our research process. We hope this will help investors to better understand how their investments are managed.

We analyse ESG integration at two levels for each of the funds which we rate.

Firstly, at the company level, we seek to understand if and how an asset manager integrates the consideration of ESG factors in its investment processes. We assess the policy, resources, monitoring and assessment of ESG factors, risk management, engagement and voting practices. We want to know to what extent these are applied consistently across the business and its investment processes, or left to individual teams and managers to determine their own approach.

Secondly, at the individual fund level, we seek to understand if and how ESG factors are considered in the management of individual funds. We assess how ESG factors are used as an input into the process, which factors are considered, how they impact the research, portfolio construction and risk management processes.

This is a qualitative assessment. Every company and fund is different, and we assess each on its own merits. We use primary data, sourcing it directly from the companies and managers involved and seek evidence to support the assessment. We then overlay this with our experience and expertise as analysts in order to cut through the terminology and make sense of the facts.

We grade each company and fund on a scale of 0-3, in accordance with the definitions below. These scores are not necessarily linear.

Company level ESG Integration

0	The company does not have an explicit, or discernible approach to, the consideration of ESG factors.
0+	The company has begun work to identify the methodology to be used for introducing ESG factors.
1	The company has some, but limited, consideration of ESG factors across some of its investment teams but these are not a formal part of its investment process.
1+	The company has made ESG factors available to the investment teams as an input to their analysis, but they are not compelled to consider that as a factor when making investment decisions.
2	ESG factors are considered formally but are not instrumental within all of the company's investment processes.
2+	Demonstrable steps are being taken to fully integrate ESG factors into all of the company's investment processes.
3	ESG factors are fully integrated and are instrumental to the company's investment processes.

Fund level ESG Integration

0	There is no discernible approach to, or consideration of ESG factors in the fund's investment process.
0+	The fund manager has begun to evaluate how they may incorporate ESG into their investment process.
1	ESG factors may be considered by the fund's manager as an input into their analysis but are not a formal part of the investment process.
1+	ESG factors are available to the fund managers as an input to their analysis, but they are not compelled to consider them as a factor when making investment decisions.
2	ESG factors are actively considered by the fund's manager as an important part of the investment process , but do not drive the final investment decision.
2+	The manager is taking demonstrable steps to fully integrate ESG into the management of the strategy.
3	ESG factors are fully integrated and are instrumental to the management of this strategy.



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