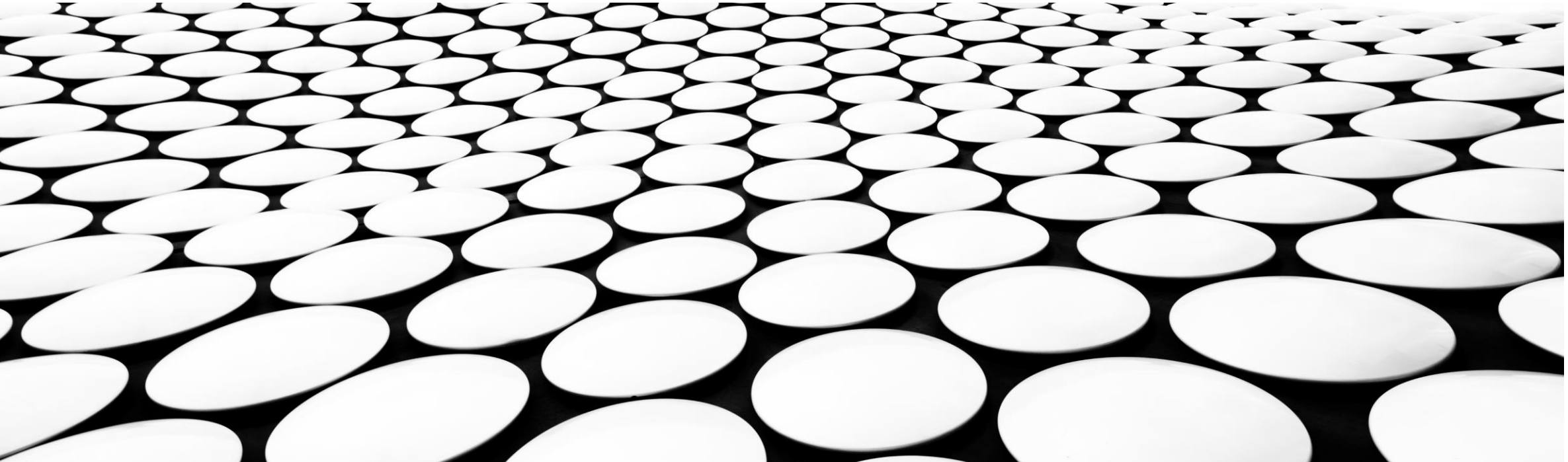


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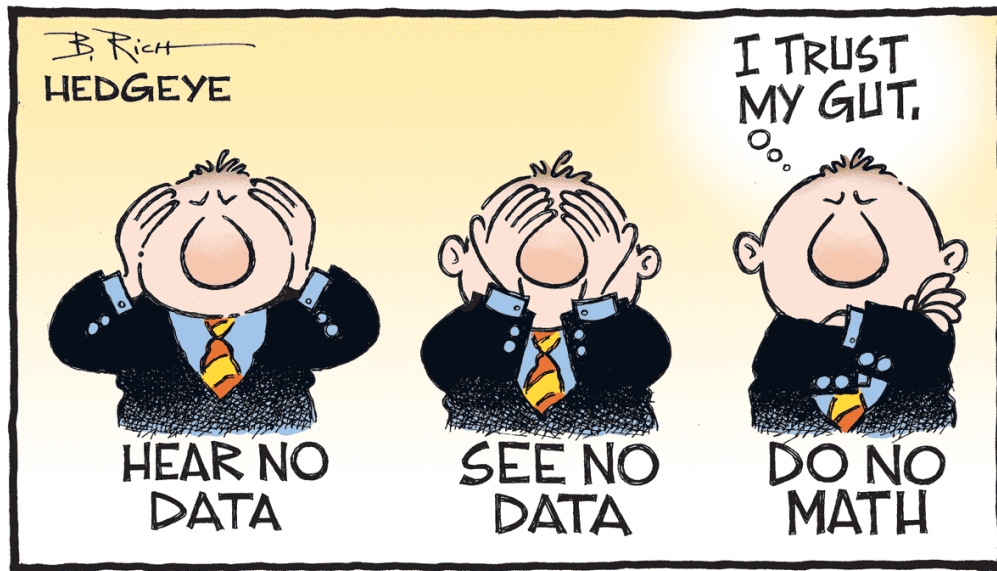
# ENVIRONMENTAL. SOCIAL. GOVERNANCE.

INSURER INVESTMENT FORUM XXI



# FIDUCIARY RESPONSIBILITY TO STAY INFORMED

- 1) Perspectives to support internal staff, committee, and Board discussions
- 2) Practical considerations



VS



ENVIRONMENTAL (E)	SOCIAL (S)	GOVERNANCE (G)
Climate Change	Human Rights	Board Diversity
Energy Efficiency	Labor Standards	Executive Compensation
Waste Management	Stakeholder Relations	Board Behavior

### What ESG Investing is not..

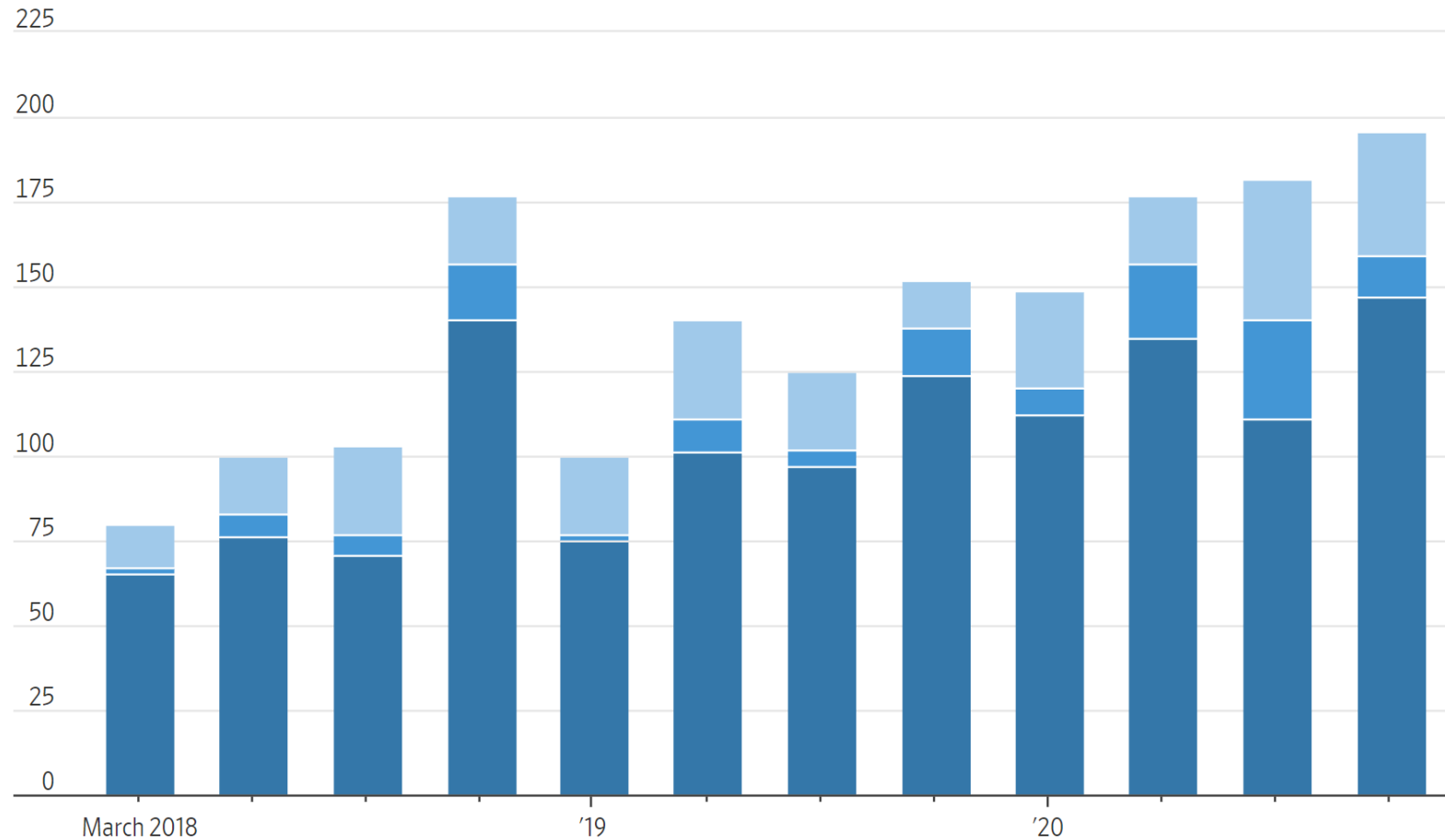
- A separate asset class
- A political construct
- Shareholder concept
- A fad

### What ESG Investing is..

- Strategy overlay to apply organization's values
- Independent of political opinions
- Stakeholder concept
- Here to stay

# ESG TRENDS AND MOMENTUM: SUSTAINABILITY-MARKETED FUNDS LAUNCHED PER QUARTER

■ Europe ■ US ■ Rest of World

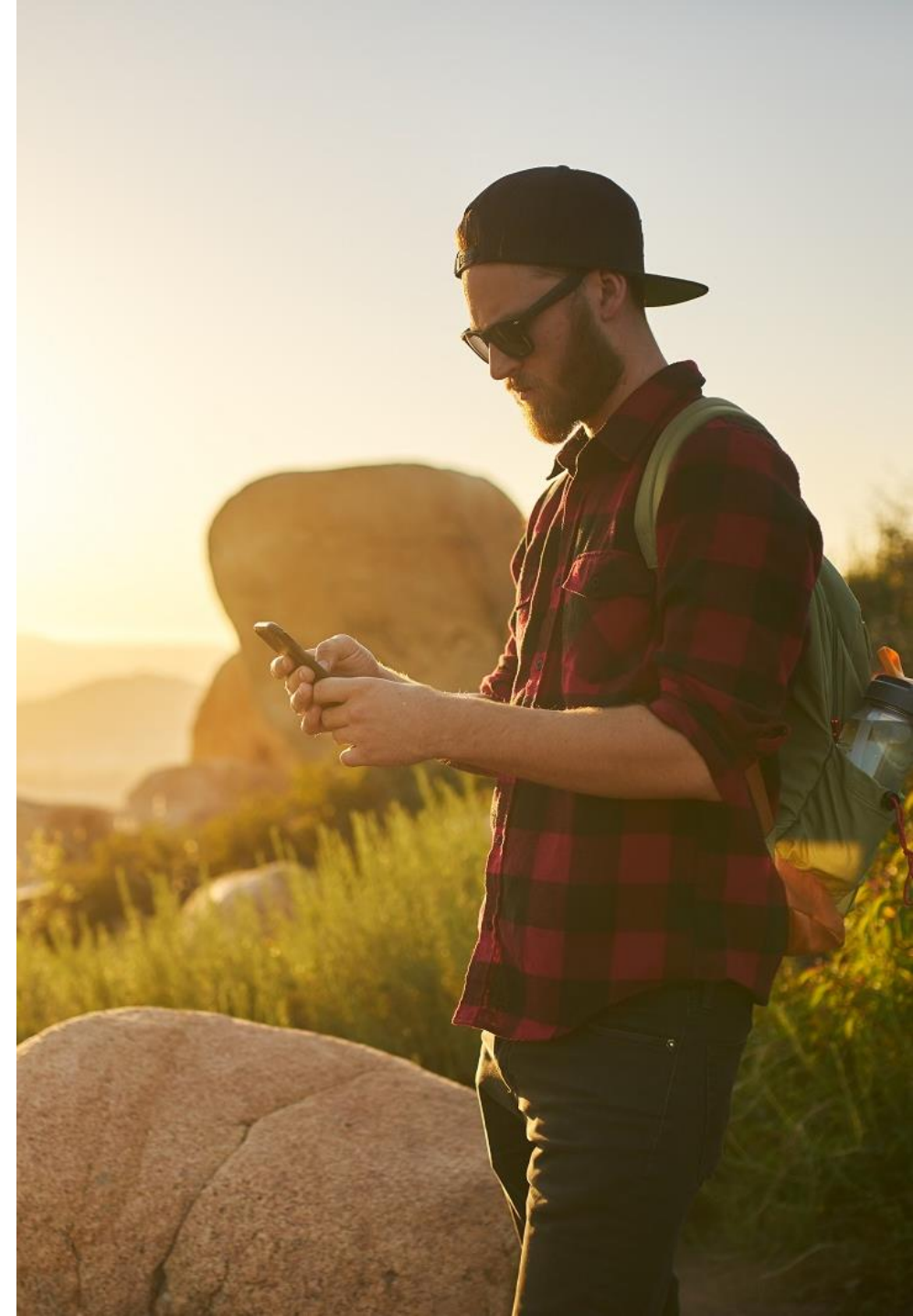


- Across developed world, ESG investing has been here for a while
- Wall Street/Asset managers supporting investor demand while regulators try to keep up

# IMPACT OF MILLENNIALS

- 95% of millennial investors were interested in sustainable investing as of 2019<sup>1</sup>
- \$30T (USD) wealth transfer from baby boomers to 75 million millennials to take place over next few decades<sup>2</sup>


- <sup>1</sup> Morgan Stanley Institute for Sustainable Investing: Sustainable Signals -- The Individual Investor Perspective (2019)
- <sup>2</sup> Accenture. The “Greater” Wealth Transfer – Capitalizing on the Intergenerational Shift in Wealth, 2012: <https://www.accenture.com/us-en/insight-capitalizing-intergenerational-shift-wealth-capital-markets-summary>





## CONCERN #1 – STANDARDIZATION OF ESG DATA

- Investment strategies require reliable and accurate data to construct and monitor ESG portfolios

- 
- Reliability
  - Implicit value systems
  - Database maintenance
  - Resource intensive

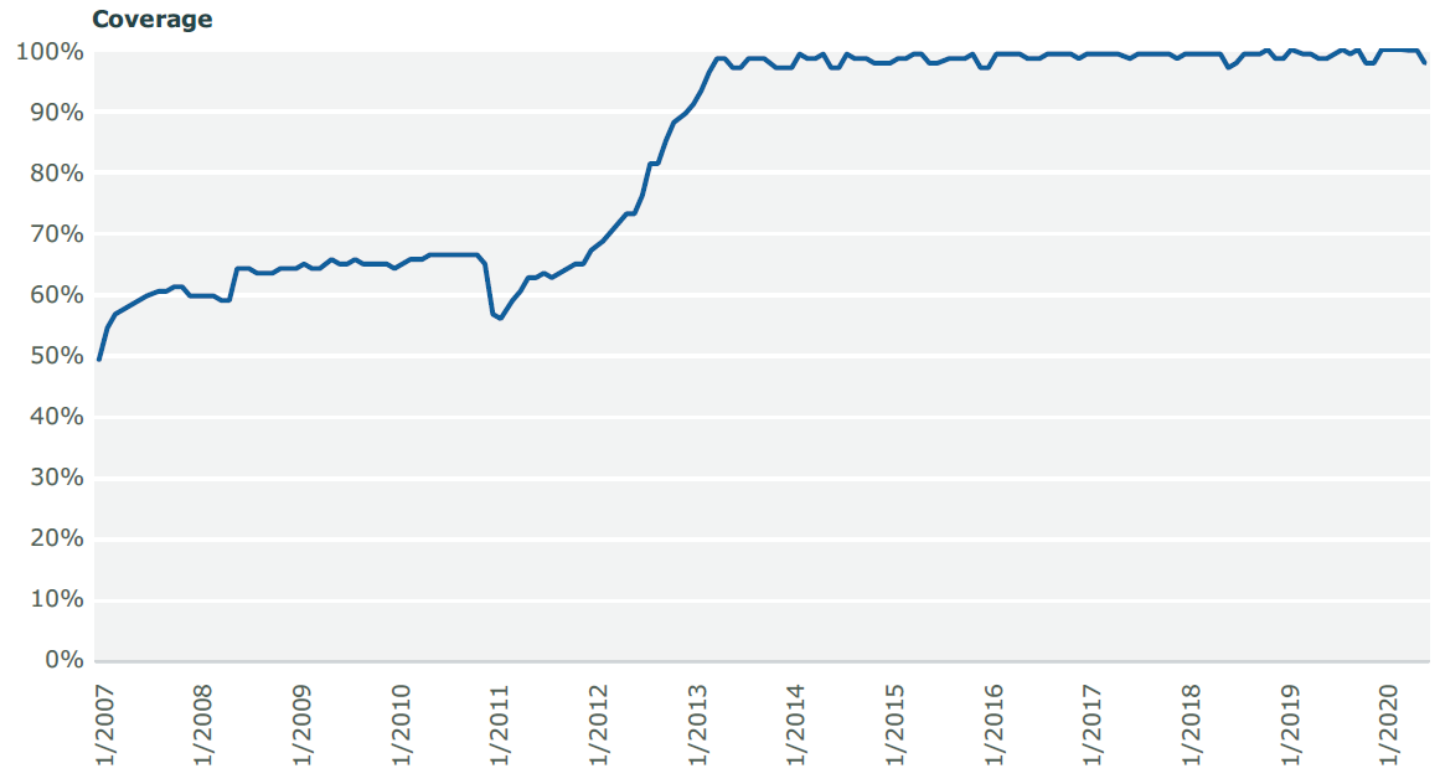
# MSCI

## BIG KID ON THE BLOCK

- 200+ metrics to evaluate funds on ESG risks, exposure to sustainable impact themes, and values-oriented issues

### PERCENTAGE OF STOCKS IN THE MSCI ALL COUNTRY WORLD INDEX WITH AVAILABLE DATA IN THE MSCI ESG RATINGS

Source: MSCI



Data reflects the period from January 2007 – June 2020.

# RACE TO KEEP UP WITH MSCI...

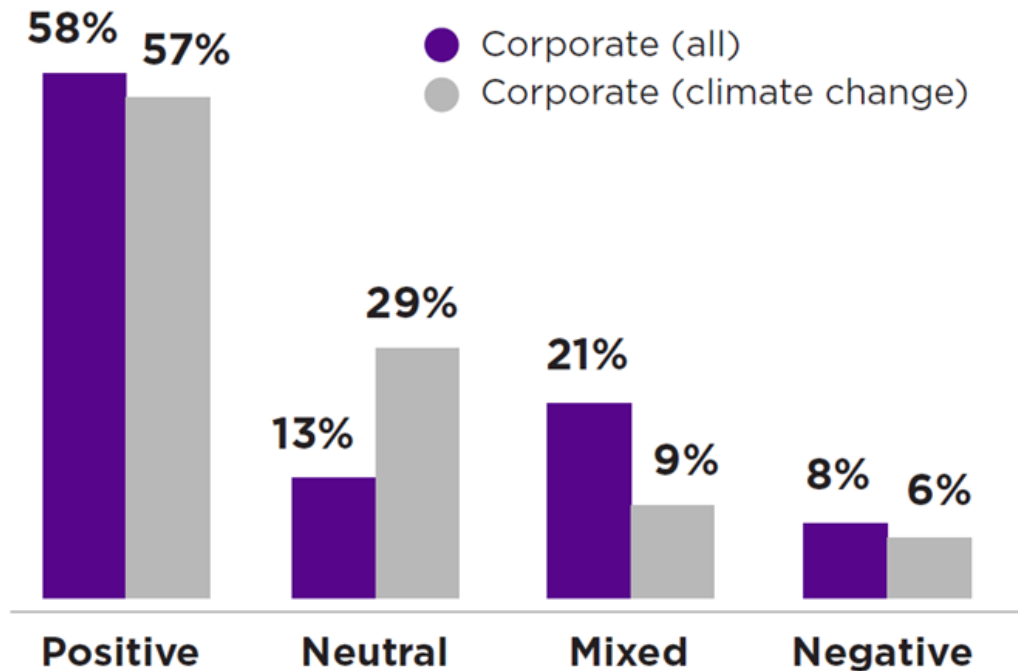
Acquirer	Target	Date
Morningstar	Sustainalytics	Apr 21, 2020
Moody's	Vigeo	Apr 15, 2019
S&P Global	RobecoSAM Ratings	Nov 21, 2019
Nasdaq	OneReport	Feb 3, 2020
FactSet	Truvalue	Oct 20, 2020
Solactive	Spark Change	Nov 11, 2020



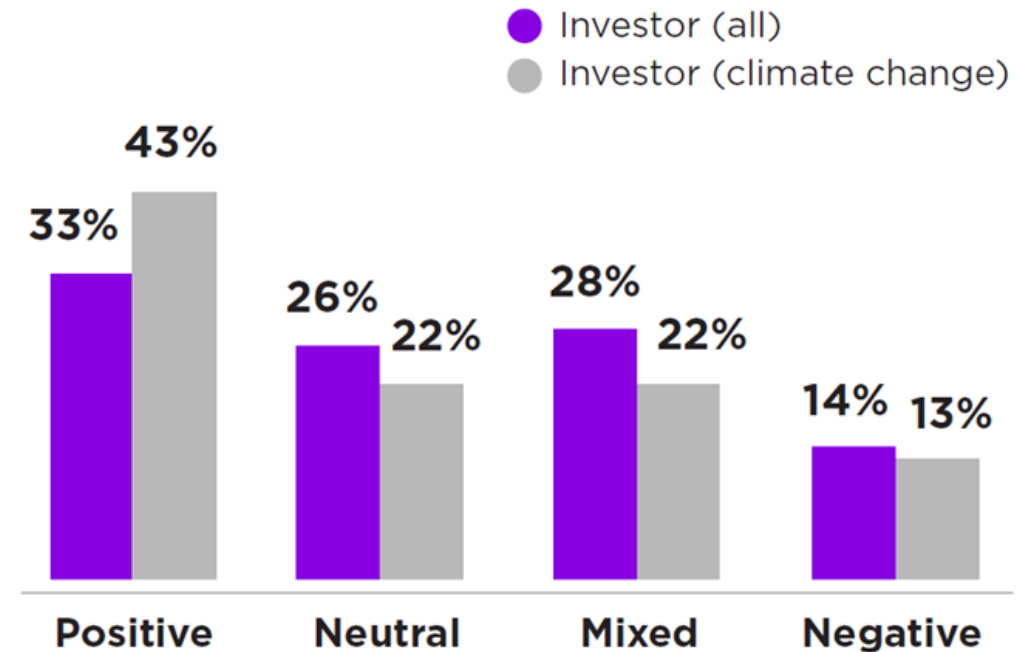
\*Sustainable Development Goals (SDGs)



## CONCERN #2 - PERFORMANCE



- Corporate financial performance focused on operating metrics such as ROE, ROA, stock price, etc)
- Positive + Neutral results account for 71% vs 8% negative results



- Investment studies focused on risk-adjusted attributes such as alpha, Sharpe Ratio, etc
- Positive + Neutral results account for 59% vs 14% negative results

# CASE STUDY: BLACKROCK ESG INTEGRATION

- Capital Market Assumptions (CMAs) is a core to building portfolios
- BlackRock's CMAs for the first time, reflect impact of climate change on the investment landscape
- A “green transition” has a higher mean expected return vs a “no-climate-action return” (5 Year assumptions)

BlackRock capital market assumptions for selected assets, February 2021



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise - or even estimate - of future performance.

Source: BlackRock Investment Institute, February 2021. Data as of 31 December, 2020. Notes: Return assumptions are total nominal returns. U.S. dollar return expectations for all asset classes are shown in unhedged terms. Our CMAs generate market, or beta, geometric return expectations. Asset return expectations are gross of fees. For representative indices used, see the *Assumptions at a glance table*. For a full of asset classes we cover, visit our Capital Market Assumptions website at [blackrock.com/institutions/en-us/insights/portfolio-design/capital-market-assumptions](https://blackrock.com/institutions/en-us/insights/portfolio-design/capital-market-assumptions). There are two sets of bands around our mean return expectation. The darker bands show our estimates of uncertainty in our mean return estimates. The lighter bands are based on the 25th and 75th percentile of expected return outcomes – the interquartile range for more detail read [Portfolio perspectives](#).

## **PRACTICAL CONSIDERATIONS:**

# **INVESTMENT POLICY AWARENESS AND ACKNOWLEDGEMENT**

- Investment policy language could be immediately inserted while an organization's ESG approach is being evaluated
- Adding language does not mean any material changes to the program as of yet

**Example #1** – The company/organization recognizes the importance of considering environmental, social and governance (ESG) factors in its investments. Our investment professionals, both internal and external, integrate ESG considerations as well as a range of other relevant factors into due diligence, monitoring, and investment-decision making.

**Example #2** - The primary objective of the company's/organization's investment approach is to achieve the highest and most stable investment returns over the long term for an acceptable level of risk. In this respect, it is becoming increasingly important to consider environmental, social and governance risks within the investment decision-making process.

# **PRACTICAL CONSIDERATIONS:**

## **QUESTIONS TO ASK YOUR INVESTMENT MANAGERS**

**Question #1** – Does your firm have an ESG philosophy and methodology of how ESG is approached and integrated within the portfolio?

**Question #2** – How will my risk/reward profile change if the portfolio has an ESG tilt?

**Question #3** – What else should I be asking regarding better aligning our investment portfolio with our organizations' values?

# **PRACTICAL CONSIDERATIONS:**

## **IMPLEMENTING ESG IN INVESTMENT PORTFOLIO**

**Option #1** – Negative screening. Primary objective is organization's values

**Option #2** – ESG integration as extension of credit analysis to enhance investment process. Primary objective is generating alpha

**Option #3** – Thematic strategies invest in themes such as climate change, diversity, social issues, etc. Primary objective is generating alpha

**Option #4** – ESG tilted mutual funds/ETFs vs peers. Primary objective is generating alpha.

# FINAL THOUGHTS

## Things to consider

- Your organization is temporarily holding stakeholder money – Members, constituents, policyholders
- ESG framework is still evolving across standardization of data, reporting, monitoring
- Underperformance is increasingly being dispelled

## Practical Considerations

- Investment Policy Acknowledgement
  - Respectfully consider unique constraints that may be related to your constituents
  - Openly discuss and prioritize ESG factors pursuant to organization's enterprise values, goals, and objectives