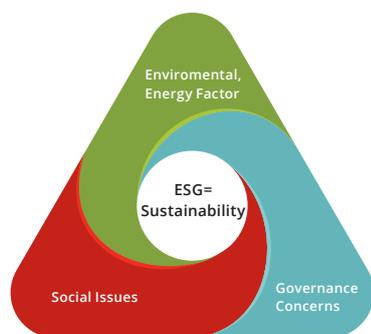


The cost of ESG



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Over the last few months there has not been a day that has gone by without a new fund launch focused on Environmental, Social and Governance (ESG) issues, a course to educate investors on sustainability or articles on the importance of sustainable investments.



Storebrand, as a group, is committed to sustainability and has been at the forefront of socially responsible investing as a core value since the mid 1990s. Although this is now a great advantage for the group, resulting in over €2.4 billion of inflows into ESG funds in 2018 alone, this was not always the case. In the late nineties and early noughties, asset managers had to spend considerable time explaining to clients the benefits of socially responsible investing (SRI). Interest in funds that integrated ESG into their investment processes was not always as high as it is today and the commercial opportunities were limited. However, at the end of 2015 and following the Paris Agreement, many institutional investors decided to take a more active role when it came to sustainability. This interest was accelerated by policymakers in several European countries renewing pressure on investors to consider the

ESG impact of their portfolio holdings and in many cases even forcing institutions to set ESG goals alongside those for investment returns.

As a result, the past two years provided clear signs that sustainability is becoming integral to European fund management and, as a result, managers are better at articulating their approach to it. ESG integration remains by far the preferred strategy, growing by 60%, according to Euro-sif (European SRI Study 2018 from November 2018). A recent Bloomberg review revealed that Europe remains the biggest region for sustainable investors with around \$14 trillion devoted to these strategies.

However, as the interest in ESG has intensified, there has been growing skepticism and concern from institutions over the potential costs associated with pursuing newly adopted ESG policies. Often clients who decide to embark on a more active role feel pressured to increase their costs in order to access the data, people and systems to cope with the new policies. Information and skills have always come at a cost for both fund managers and investors.

Storebrand has significant experience in working closely with other instituti-

ons to help them through this process. There are, of course, some questions that have to be considered at the outset. Firstly, what is the overall ESG strategy and what do investors want to achieve? Secondly, will they focus their efforts domestically or internationally? Will they go it alone or work together with partners? From our experience, the issue could be divided into three main areas: Big Data, Collaboration and Synergies.

Big Data

Since we started working with responsible investments in 1995, access to information has been key to our success. However, the industry has gone through some major technological changes. This has led to information being more up-to-date and immediate. Whether it relates to exclusions, engagement, ratings or reporting, specialist data providers have become instrumental.

When it comes to working with passive strategies, where an investment fund will track a given benchmark, a client needs to consider which companies their portfolio wants to engage with and which it might need to divest from. Divestments or exclusions in this space are usually based on norms (breaches of international norms and conventions) or products (for exam-



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ple the production and distribution of tobacco, controversial weapons, coal and palm oil). Engagement with companies is also dependent on data from specialist providers or directly from companies in order to manage the investment universe and pick the right cases to focus on.

Engagement also requires voting. Proxy voting is an integral part of the fund management industry and this requires some investment, although what used to be a manual task has been digitalised.

Reporting on sustainability as well as creating a rating for companies also requires access to information.

Collaboration

It is natural for institutional investors to be more vocal in their home market(s) and to collaborate internationally, and perhaps less common to have significant holdings in overseas companies or for their brand to be equally strong. Deciding to focus domestically can lead to immediate results and valuable domestic PR on the issues they want to highlight. In this pursuit, results also can be accelerated by the use of local or regional bodies such as NorSIF in Norway and EUROSIF for Europe. Combining local assets, expertise and resources is key to reducing costs and delivering better results.

Many investment managers operating internationally can have trouble getting the necessary attention, as their brand as well as the size of the holdings limit their influence. In 2005,

the UN invited a group of the world's largest institutional investors to join a process to develop Principles for Responsible Investment. This group has since expanded to include more than 1,750 signatories from over 50 countries and representing approximately \$70 trillion, as of January. Many of its initiatives have been launched to ensure that certain key targets are achieved.

An example of this is the Climate Action 100+ group, an investor initiative launched in 2017 to ensure the world's largest corporate greenhouse gas emitters take the necessary action needed on climate change. More than 320 investors with a combined worth of over US\$33 trillion participate in this initiative.

Synergies

In the Nordics, many institutions have benefited from working closer together. Organisations in this part of the world tend to have similar values and concerns, and can set an example globally. In addition, their screening requirements are very similar. For example, the Norwegian Oil Fund has not only led the way in the Nordics but also globally when it comes to setting the sustainability agenda.

Investing in people is key to the future development of asset management. Attracting the right talent has become a battleground for large corporations, especially for young talent that combines both data management/IT skills with investment experience. Recent reports have shown that corporations embracing ESG will attract a larger

part of the talent pool, especially amongst millennials.

Whereas investing in people is an unavoidable cost, access to data and reporting can be done in smart ways, depending on the mandate of the client, peers it collaborates with and asset managers it decides to employ. Making a choice to develop an ESG policy is no longer a question. Making smart choices to keep costs low is key. Finding the right partners is a differentiator.

There is no alternative if we are, as an industry, going to try and address the magnitude of the issue we face. The value at risk to manageable assets from climate change calculated in a report by the Economist (2015) stood at \$4.2 trillion. Risk, according to Warren Buffet, comes from not knowing what you are doing. If, however, investors focus their efforts where they can maximise their impact and collaborate with experts for everything else, they can achieve sustainable returns.

