Four areas of misunderstanding around ESG

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Ultimately, the solutions to these problems include the following.

**Knowledge sharing and training for all staff**

Knowledge sharing not only improves awareness and understanding but also improves the culture. Generally, once portfolio managers learn about ESG integration, associated issues and opportunities rather than just risk, portfolio managers buy in more fully to ESG.

A recommendation shared by Sudip Hazra, head of sustainability research at Kepler Cheuvreux, was to be flexible on labelling the issues as ESG issues: “The biggest area of traction that we have had with mainstream investors has been to focus on ESG as risks and opportunities in specific timeframes.”

“When we present research with ESG themes as a risk- and opportunity-focused thematic report, we find it much easier to get access to portfolio managers who already are looking at an ESG issue/theme but don’t necessarily think in ESG terms.”

“Though there is a definite increase in interest occasionally, the term ‘ESG’ still needs explaining.”

There is a talent gap. ESG teams often lack professionals with investment experience and application, and investment desks largely consist of professionals with limited ESG knowledge and research skills.

To raise the ESG knowledge on the investment desks, Masja Zandbergen-Albers, head of ESG integration, illustrates that at Robeco, “there is a champion within every investment team who is responsible for making sure that we integrate sustainability, that we innovate, and that we think of new products. These champions lead bi-monthly meetings, where they share best practices and discuss implementation issues and new things that we have developed.”

**Materiality frameworks for ESG issues**

Investors are creating their own materiality frameworks. Emily Chew, global head of ESG at Manulife Investment Management, says, “Frameworks are really critical for trying to get your arms around a fairly expansive and potentially vague space. “They need to be reviewed and updated over time. Ideally they need to be sufficiently flexible that as social norms evolve, as environmental issues emerge, as corporate governance norms evolve as well, the frameworks can incorporate those new issues.”

If you want to develop your own, some investors use the Sustainability Accounting Standards Board (SASB) materiality map as a starting point to develop an internal, proprietary materiality framework.

**Case studies for materiality and practices**

Case studies are needed for every sector, issue, and market. In the CFA Institute and PRI Guidance and Case Studies for ESG integration: Equities and Fixed Income report, we provided 33 case studies across many markets and sectors that share ideas about how investors integrate ESG issues into equity and fixed-income investments.

**Investment practice guidance**

Hopefully, the ESG integration framework developed by PRI and CFA Institute will provide this guidance (see chart).

More thorough consideration of ESG factors by financial professionals can improve the fundamental analysis they undertake and ultimately the investment choices they make.

We are in the early days of ESG integration, however, and are just at the beginning of the ESG integration learning curve for most practitioners.

The good thing is that practitioners do not need to worry about which ESG integration process works best for everyone, but rather they should focus on what works best for them and their clients.

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