GUIDE SERIES **14**

FINANCIAL STANDARD GUIDE TO

ESG Investing

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Contents

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Industry snapshot

Environmental, social and governance (ESG) investing is a question that has never been more prominent on the minds of investors. There is a growing recognition in the financial industry that ESG factors influence investor returns. At its heart, ESG investing is explicitly and systematically including ESG issues in investment analysis and decisions with the aim of better managing risks and improving returns.

Issues that have formerly been considered “non-financial”, such as climate change, are now being explicitly evaluated, disclosed and managed by companies, and fund managers and advisers are increasingly integrating those issues when developing portfolios. Investors are also evaluating the funds, products and managers on whether and how they manage ESG in their product development. Influencing this process are quickly expanding sources of data evaluating ESG performance both by fund managers themselves, and by third party data providers.

In addition to these developments within the investment management industry, consumer sentiment is also quickly shifting. Individual investors are clamouring for products that explicitly take ESG investing into consideration.

Industry snapshot

Australia ranks with global peers when it comes to ESG investing. The Global Sustainable Investment Alliance (GSIA) publishes a biennial Global Sustainable Investment review, collating the results from the market studies of regional sustainable investment forums in Europe, the United States, Canada, Japan, and Australia and New Zealand. In the most recent report in 2018, Europe had US$14.1 trillion in sustainable investing assets, the US had US$12 trillion, Japan had US$2.2 trillion, Canada had US$1.7 trillion, and Australia/New Zealand had US$734 billion in sustainable investment assets.

Rainmaker has identified 1200 ESG superannuation options in its research database, as at February 2020.

At a global level, institutional investors had 75% of assets under management while retail had 25%, according to the GSIA 2018 report. In Australia, retail has a larger share of the market. According to the Responsible Investment Association Australasia (RIAA)'s 2019 benchmark report, 42% of surveyed AUM was managed on behalf of retail clients in 2018, up from 30% in 2017.

ESG integration both in product development and in evaluating managers for their performance on ESG investing is an evolving process.

This guide seeks to provide financial advisers with a framework to understanding how to define ESG investing and how it integrates into an overall investment process. This guide also features real-life case studies and performance data that will shine the light on this increasingly important section of the investment management industry.

What is ESG investing?

Ultimately, we have a fiduciary responsibility to our clients to maximise the probability of attractive long-term returns – and will never hesitate to use our voice and vote to deliver better performance. This is why we are so focused on financially material ESG issues.

Cyrus Taraporevala
president and chief executive officer, State Street Global Advisors

ESG investing covers a wide variety of approaches discussed in this guide, but at its foundation, ESG investing is about considering a holistic concept of financial value, not moral/ethical values. By this we mean that ESG investing takes into account a wide scope of information to make better-grounded investment decisions, although as discussed later in this guide, advisers can respond to client values as part of an evolving business practice and in shaping how the investment discussion is constructed.

Investors are increasingly integrating what has been considered "non-financial" environmental, social and governance information that is now presenting as impactful for both risk and opportunity on long-term financial returns.

These issues cover a wide spectrum of activity: on the environmental side, this includes climate change, water use and water scarcity, and waste management, including the use of plastics. Social issues include modern slavery risks in company supply chains, labour rights, wage theft, and a wider consideration of human rights in general. Governance issues include executive remuneration, board diversity on gender and other grounds, corporate culture and conduct, transparency, accountability, and ethics. These issues can be complex and interrelated.

What is ESG investing?

Over the past decade, there has been a massive push towards increased transparency and improved reporting by companies, which means investors now have access to more insights than ever before to understand the nature of ESG risks and give them the data to take action and oversee progress.

This has led to the development of third party data and research providers, and many fund managers will often develop their own proprietary rating systems that they will use as the basis for explicit objectives for funds, such as funds that minimise carbon emissions by 70%, or funds that minimise human rights harms.

Because ESG investing covers a vast spectrum of issues, funds and products that fall into the ESG investing category will not look alike. Fund managers and superannuation funds will value characteristics under E, S and G differently based on their perception of the risk and return impacts of material issues, which means that they will make differing calls on the presence and weights given different companies, based on their bespoke approaches to ESG investing.

There are a number of ways in which active and passive funds can be constructed to eliminate companies that perform poorly on ESG grounds, or include companies that perform better on ESG metrics. This data has also been extended to encompass a range of asset classes, which will be discussed later in the guide.

ESG investing is also entwined with a discussion of asset stewardship - responsibly managing an asset on behalf of the beneficial owners. It is linked with legal and professional fiduciary obligations, and it is rooted in being an active owner - using shareholder rights to advocate for good corporate governance and improve the long-term value of a company, such as voting at annual general meetings. As many investors are long-term holders of shares and assets, one of the key strategies for managing investments is engaging with companies, a strategy discussed later in the guide.

What is ESG investing?

Key benefits and opportunities

At its heart, ESG investing is rooted in traditional portfolio management theory – the risk and return of a combination of assets to generate the highest expected rate of return on an investment for a specific level of risk. ESG investing fundamentally expands the scope of information for consideration and analysis, and can be demonstrated to show longer term alpha generation while minimising portfolio risk.

The following table compares data from Rainmaker Information, the publisher of superannuation comparison service, SelectingSuper, rating median performance of the top 50 workplace superannuation ESG options versus benchmark growth and balanced indexes. The top 50 workplace superannuation ESG options in the SelectingSuper database range across growth, balanced and other options.

There is also increasing evidence to suggest that integrating ESG into an investment process reduces volatility in portfolios, which can often be a key consideration for those approaching retirement or in the retirement phase.

	One year	Three year	Five year	Seven year	10 year
Top 50 workplace superannuation ESG options	15.9%	9.5%	6.9%	8.7%	7.4%
SelectingSuper Growth Index benchmark	16.7%	10%	7.9%	9.7%	8.5%
SelectingSuper Balanced Index	13.5%	8.3%	6.7%	8.1%	7.5%

Source: Rainmaker Information, the publisher of superannuation comparison service, SelectingSuper, data to 31 January 2020

Consumer demand for ESG products across the spectrum has dramatically increased.

Another issue to consider is the growth in regulation and in legal opinions regarding fiduciary duty with regards to ESG issues. The Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC), the ASX, and the Reserve Bank of Australia (RBA) have all issued statements reminding companies of their obligation to make material disclosures of climate risk. As these disclosures increase, the ability of investors to respond and the responsibility for fiduciaries to make sure they are making decisions in clients' best interest also grow to encompass climate risk. Similarly, the 2019 Modern Slavery Act makes it mandatory for all firms with more than $100 million in annual revenue - including fund managers and superannuation funds - to report on the risks of modern slavery in their operations and investments.

Further drivers include investor-supported initiatives such as the Sustainability Accounting Standards Board (SASB), an independent, non-profit standards-setting organisation for ESG reporting by publicly listed corporations. SASB focuses on metrics that are financially material to investors, establishing a baseline standard of expectations for disclosure, and offering clear guidance to companies.

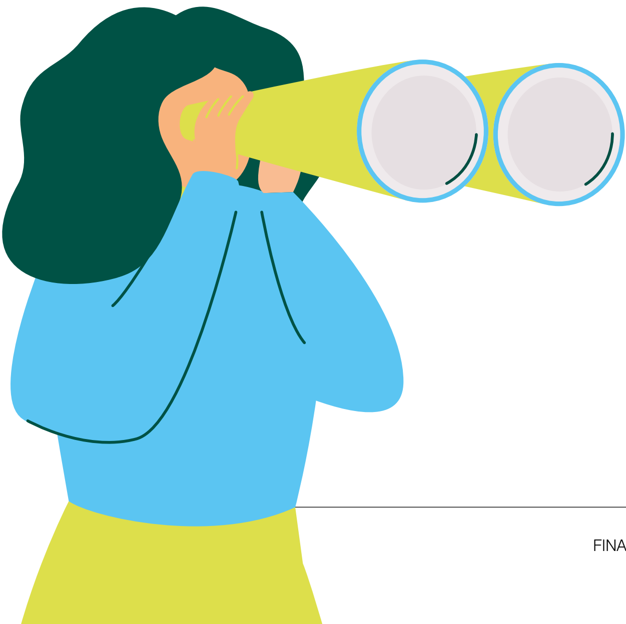
Beyond the investment and the regulatory case for ESG investing, there is a business case to be made as well. Consumer demand for ESG products across the spectrum has dramatically increased. A 2020 survey of consumer interest by the RIAA found that 86% of Australians expect their super or other investments, and 87% of Australians expect the

Key benefits and opportunities

money in their bank accounts to be invested responsibly and ethically. The top six issues identified in that 2020 research that Australians find important are renewable energy and energy efficiency (55%), sustainable water management and use (48%), healthcare and medical products (48%), healthy river and ocean ecosystems (45%), sustainable land and agricultural management (43%) and education (42%).

There is no doubt that Australian investors are strongly motivated by fees and performance when selecting funds, but investing responsibly is an important consideration as well. A survey of millennials, including Australians, by global firm Calastone showed that while 60% of Australian millennials aged 27-45 focused on returns and 59% focused on fees, 37% identified investment in ethical funds, causes and products as a consideration when choosing investment funds.

Integrating ESG investing into your practice can be a source of improving client relationships, and can also prove valuable in attracting new advisers to the industry as well. Furthermore, when integrated authentically into a practice, ESG investing can become a unique selling point for brands and marketing purposes.



Challenges and risks to ESG investing

Because ESG investing has come to prominence in Australia in the last decade, there are certain challenges, constraints and issues that should be considered. Fees can vary widely, and differences can be attributed to the cost of additional research, while analysts and portfolio construction resources are needed to construct and monitor ESG funds.

Another challenge is that demand is far outstripping supply. Again, according to Rainmaker Information statistics, there are 1200 ESG investment options in the superannuation space as at February 2020, out of a total of 57,000 investment options, representing only 2% of the total universe. This can mean that it becomes challenging when trying to match client interests in ESG investing to the available supply of products across asset classes.

A third challenge to the industry is the fact that while the sources of ESG data are growing quickly, there are still limits around environmental and social issues, and it can be difficult to separate out noise and signal. Further, it can be very hard to compare ESG data from provider to provider, and it can be hard to compare ESG methodology between fund managers. (There is still work to be done around broad education on the definitions relating to ESG investing. Please see the glossary at the end of the guide from page 28).

These feed into one of the larger concerns for ESG investing: the issue of greenwashing – the idea that a fund, manager, or adviser doesn't "walk the walk" when it comes to applying ESG data to investment choices. This can take a variety of forms, such as ostensibly being a "green" investment fund or manager, only to be discovered to be allocating funds to companies in the fossil fuel sector.

Challenges and risks to ESG investing

Transparency and disclosure are increasingly important to ESG investing.

This can be a very tricky line to walk – because of the frequent confusion over (financial) value versus (moral/ethical) values, an adviser or planner firm needs to articulate a clear definition and policy around the ways in which ESG investing is applied, and then that policy needs to be clearly communicated to clients, and then clearly implemented in the investment and product decision-making process. Then, there are responsibilities of reporting – another aspect of greenwashing is the extent to which funds, managers or advisers report on their claims of ESG investing activity. Transparency and disclosure are increasingly important to ESG investing. It is also becoming part of voluntary standards – the RIAA has a voluntary responsible investment certification process that we address later in the guide. Parts of their standards include reporting obligations to demonstrate how they are meeting their targets and goals.

While there is a wide spectrum of activity that credibly come under the ESG investing canopy, this activity must be seen as authentically applied and clearly communicated or else there is a risk of reputational damage to you and your firm. ESG investing can be a process of evolution (please see the case studies for examples), but that process should be grounded in clear messaging and application.

Types of strategies

As a general definition, ESG integration is the systematic and explicit inclusion of material ESG metrics into the traditional investment analysis and decision making process. There is a broad spectrum of strategies that fall under the ESG investing umbrella. These strategies can be – and frequently are – combined, and can be applied to both active investing strategies and passive investing strategies. Here are some of the most commonly used strategies.

Negative screening/exclusion is the strategy of removing potential investments in companies and/or sectors that are deemed as posing risk on ESG metrics. Common exclusions include tobacco, controversial weapons, nuclear power, gambling, alcohol, fossil fuels, and human rights. Some of these screens are norms based, like not investing in companies that produce weapons that contravene the UN Convention on Cluster Munitions. The benefits of this approach is that product providers can communicate what isn't acceptable from an ESG perspective and it can be calibrated to screen out what isn't wanted. The drawbacks is that negative screens can concentrate portfolios, leading to additional, unwanted risk, or excluding companies that potentially could enhance return.

Positive screening/inclusion is the opposite of negative screening - increasing investments in companies and/or sectors that are deemed to have stronger performance on ESG metrics. This can take a variety of forms. For example, best of sector funds will assess which companies in a given sector perform the best on ESG metrics and include top quartile performers. This allows investors to have exposures across sectors, but reduce risk for poor performance against ESG indicators, such as removing heavy carbon emitting companies from the mining and extraction sector, but still remaining invested in better performing mining and extracting companies.

A second example are funds and indices that measure company performance against the Sustainable Development Goals (SDGs) – 17 global environmental, social and economic goals designed to improve people and planet by 2030, and invest in companies that align to SDG targets and accomplishments. Other examples include funds that invest in renewable energy, healthcare, or technology.

Types of strategies

Positive screens can also be norms-based to include criteria developed through international bodies such as the UNGC (United Nations Global Compact), ILO (International Labour Organisation), UNICEF (United Nations Children's Fund) and the UNHRC (United Nations Human Rights Council).

Negative and positive screening are strategies of both passive and active managers. Many index providers have indices built to various screens that can be the basis of quantitative strategies and exchange traded funds (ETFs). Meanwhile, fundamental qualitative analysts will use ESG data to construct various portfolios that have either negative or positive – and sometimes both screens applied.

Engagement is the process of communicating with invested companies' management and boards with the aim of a) increasing knowledge for analysis and investment decision-making and b) informing companies of investor expectations on performance, specifically on ESG grounds. Engagement is a widespread tool in Australia, particularly for funds that own a diversified universe of Australian companies, or an index. The composition of the ASX200 includes companies that have exposures to a broad range of environmental, social and corporate governance risks and opportunities, and most investors will hold a swathe of the ASX200. Therefore, engagement becomes a tool by which investors can assess and contribute to long-term investment return and corporate growth for investors who are universal owners.

Impact investing is investments that explicitly target positive performance on social and/or environmental metrics as well to financial performance. This is an emerging and relatively small piece of the overall ESG investing universe in Australia. According to the Social Impact Investing Taskforce, created by the Department of the Prime Minister and Cabinet in 2019 for the purpose of investigating barriers to social impact investment, the impact investing sector is small in Australia – managed impact investments grew from around $1.2 billion in mid-2015 to $5.8 billion at the end of 2017.

However, this area is a source of great interest by family offices, endowments, foundations and high net worth investors who are interested in seeking values as well as value.

These identified strategies can be combined together. In particular, engagement is generally a tool used by investors across strategies. Fund managers will inform companies of their views on their ESG performance and cite their research as justification for why they are positively or negatively screen out of a process. For example, State Street Global Advisors president and chief executive officer Cyrus Taraporevala wrote in his 2020 annual letter to company directors, explaining the company's ESG approach and offering directors an opportunity to speak with analysts. Further, in 2020, Taraporevala announced that State Street will begin voting against board members of companies that they have deemed laggards. Other large, global fund managers are taking similar action in terms of establishing their own ESG approaches, engaging with directors publicly and privately.

These identified strategies can be found across asset classes as well, although the application of ESG data can vary asset class to asset class. For example, ESG data can be applied as a tool to assess return and risk in an equity portfolio, but the primary concern of a bond portfolio is the issuer's ability to pay, which means that there is a different balance of material issues that impact on the investment between the E, the S, and the G.

Table: Asset classes with funds using ESG Investing strategies

Asset class	Negative Screens	Positive Screens	Engagement	Impact Investing
Equities	✓	✓	✓	✓
Fixed income/bond	✓	✓	✓	
Private Equity	✓	✓	✓	✓
Alternatives	✓	✓	✓	✓
Real Estate	✓	✓	✓	✓

Best practice approach to ESG investing

Best practice in ESG investing is grounded in a decision-making process that is commonly agreed on and can cross direct investment and portfolio construction and oversight, and external manager selection and oversight.

It is important to start with research. Platforms are increasingly including ESG funds, options, and stock-level data. There are also fund research houses and data terminals that provide ESG data as well. Third party research providers also provide subscription-based sources of ratings.

Developing your approved product list (APL) is also important, which means looking to your dealer group, and assessing what other options are available on platforms. Dealer groups are increasingly including ESG investing options, and platforms are a source of choice and research as well.

Asking the right questions is important as well, and this goes both ways. In the first instance, you will need to assess external fund managers for how they design, perform and disclose on ESG investing factors. The United Nations Principles for Responsible Investment (UN PRI) and RIAA both have guides to help advisers design their questionnaires with regards to manager selection and oversight, and State Street Global Advisors have developed a sample checklist for advisers as well. The checklist covers questions on objectives around ESG investing, culture at the firm, the manager's approach, and their capabilities.

In addition to asking questions of the fund managers, it is also important to talk to clients about their views on ESG investing. Again, RIAA offers sample questionnaires to use to assess clients' views on investing on environmental, social and governance issues.

In terms of structuring practice, this can be an individual consideration as to where research, manager selection and oversight sits, but remember that ESG integration isn't just an investment technique – it is often a corporate strategy as well, so embedding it across operations will lead to a more profound integration overall. Clear communication is essential on all sides in this process.

Best practice approach to ESG investing

Clear communication is essential on all sides in this process.

The Financial Adviser Standards and Ethics Authority's Code of Ethics (FASEA), which came into force January 2020 includes Standard 6, states that financial advisers must take into account the broad effects arising from the client acting on their advice and actively consider a client's broader, long-term interests and likely circumstances. This is a developing area, and advisers need to check the FASEA website for updated guidance.

Achieving Climate Goals Now

A Breakthrough Equity Climate ESG Fund

The global energy system is undergoing a seismic transition from one based primarily on fossil fuels to one increasingly based on renewable energy sources. The State Street Climate ESG International Equity Fund offers a global equity exposure that can improve your portfolio's carbon profile now — and for the future.

Multifaceted Delivery

The fund is defined by the following characteristics:

- **Mitigation and Adaptation** — achieves results through a powerful mix of mitigation of current impacts and adaptation to future climate risks.
- **Multiple Data Sources** — integrates climate data from leading data providers.
- **Exclusionary Screening** — an investment that can align with investors' values around specific ESG issues.
- **ESG Scoring** — increases exposure to companies that are highly rated by our proprietary ESG scoring system (R-Factor™).

The Next Wave, Now

The fund uses a long-only, optimised portfolio construction approach to target a reduction in current and future carbon emissions, while increasing exposure to green revenue and climate-resilient companies.

It's designed to help investors address climate risk and position their portfolio for the transition to the coming low-carbon economy.

The fund is available now with a competitive management fee of 0.24% p.a.

Five Levers to Address Climate Risk and Opportunities

	Mitigation				**+ Adaptation**
Objective	**Reduce** Carbon Emission Intensity	**Reduce** Fossil Fuel Reserves	**Reduce** Brown Revenues	**Increase** Green Revenues	**Build** Resilient Portfolio
Metric	Metric Tons of CO_2 Emissions per $M Revenues	Embedded Metric Tons of CO_2 Emissions	% of Revenues from Fossil Fuel Related Activities	% of Revenues from Low-Carbon Technology	Score on Climate Change Preparedness

Learn more about the State Street Climate ESG International Equity Fund at **ssga.com/climate-investing** or call our Managed Funds Team on **1300 382 689**.

Case study 1: The 'E' in ESG

The horrific bushfire season in southeast Australia has pushed environmental and climate change concerns to the top of the list for new and existing clients for financial adviser Dave Rae.

The Canberra-based Rae, owner of Federated Financial Services, has been a financial planner for two decades, and has increasingly integrated ESG analysis into his practice. He is a member of the Ethical Advisers' Co-op as well as the RIAA.

"Certainly this year so far, the E is top of mind, because no question, the bushfire season has prompted a lot of conversations, and with it that closer link and higher level acceptance that climate change is contributing to this," he said.

Rae advises clients on managed funds and exchange traded funds (ETFs), and establishes clients' environmental, social and corporate governance positions using a template of questions from RIAA.

"I'll bring that out at every meeting I have with new clients and when I review with existing clients as well, so I can understand what their particular issues that there are, both the negatives issue they want to avoid and the positive ones like renewable energy that they want to support with their money," he said.

For clients that want ESG-based investments, he has developed two model portfolios loosely called light green and deep green to reflect their stances.

Case study 1: The 'E' in ESG

About 50% of clients now are progressing in a more sustainable portfolio.

Dave Rae
owner, Federated Financial Services

The client's expressed preference guides him to make recommendations to one of the two model portfolios, but Rae notes that while the availability of ESG and sustainability-based products has grown in the last 12 months, there are still challenges. There is a need for increased reporting of ESG characteristics of funds, particularly around the ratings put forward by major providers, Rae said.

Rae currently has around 70 clients, and clients have evolved on their considerations of environmental issues.

"This is something that I've been progressively discussing with clients in the last three years," he said. "Some have indicated that they have no preference for these issues, and to date have remained in index portfolios. But certainly in the last 12 months, the level of interest has increased where about 50% of clients now are progressing in a more sustainable portfolio."

Given the attention that ASIC, APRA and the RBA have given to the investment risks associated with climate change, Rae is giving consideration to whether all portfolios for his clients should incorporate ESG and climate change.

Case study 2: A new business model

Integrating ESG considerations is central to the business practice of Escala Partners, according to chief investment officer Tracey McNaughton.

“It’s always been part of Escala’s DNA,” she said.

“There’s clearly a growing awareness and a need to integrate ESG. We are a fiduciary, and we not only have a responsibility to invest appropriately on behalf of our clients, but also to use our voice effectively and we see this as part of our fiduciary responsibility.”

Escala Partners integrates ESG due diligence into their manager selection process, McNaughton said.

“Every single manager that we review with the potential to going on to our approved product list, we conduct a detailed deep dive of the manager,” she said.

“We call it the five Ps plus ESG - people, philosophy, process, performance, price and then we ask them a separate set of questions on ESG.”

Escala Partners monitors managers over time to ascertain that their ESG score continues to be merited, she added.

Selecting and rating managers on their ESG process is integral to their business and serving customers, McNaughton said.

“We have some clients who are particularly interested in just building an ESG portfolio,” she said.

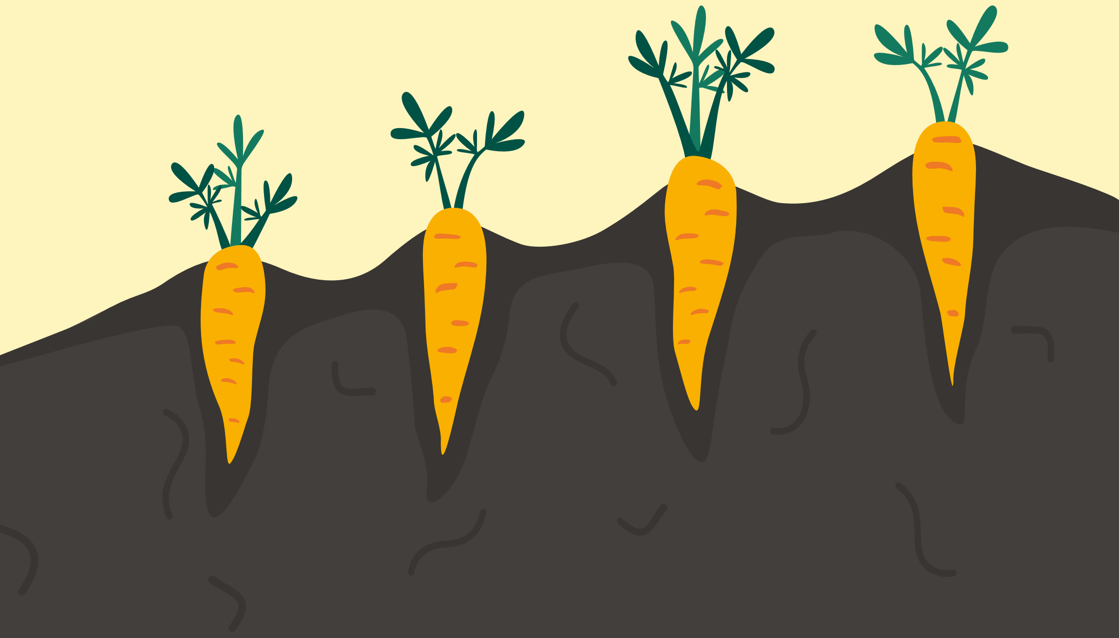
Case study 2: A new business model

"We have a process in place where we can have a model portfolio of just ESG managers, and this is increasingly important across our entire client base, particularly for our not for profit clients. We need to make sure that we have highly rated ESG managers across fixed income, equities and the alternative space."

The challenge for Escala Partners is whether there are enough managers in Australia, although there are more managers than in the past, McNaughton said.

"It's shallow from the point of view of not having a large number of managers to select from, and also from the size of the funds being offered by the managers that are doing it," she said.

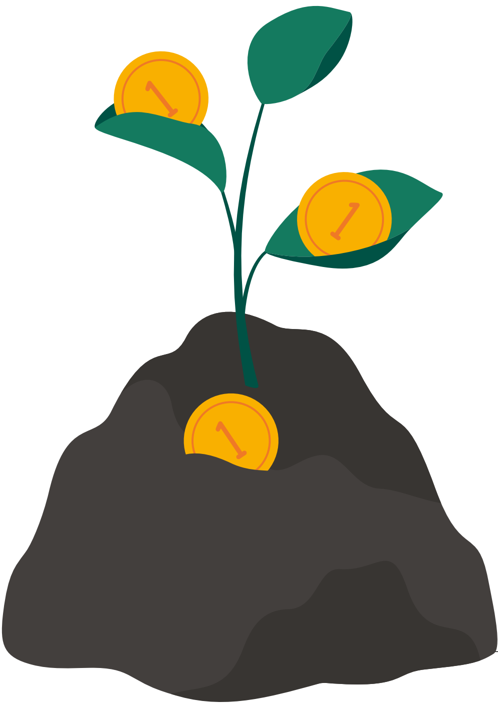
"We have $6 billion in assets under management, and it's part of our risk oversight process that we don't form a large part of a manager's assets under management. We want to find an ESG manager with a fund that is sizeable enough to grow into, and not swamp it."



Fees

Fees vary in the ESG investing space, from ethical ETFs to superannuation fund fees. Of the 1200 ESG superannuation options in the Rainmaker database, total expense ratios range up to 5.79%.

Some fund managers will charge a base fee and a performance fee. Others charge a performance-only fee. Ask the product provider.



Compliance

From a compliance perspective, there is no mandatory certification or qualification as such for ESG investing. Fund managers that are members of the Financial Services Council have a mandatory asset stewardship code that is compulsory for its fund manager members, but that is a voluntary industry body.

RIAA offers a Responsible Investment Certification process for financial advisers and investment products. RIAA evaluates financial advisers based on criteria relating to commitments to offering responsible and ethical advice to all clients, experience in offering specialist advice, and the presence of responsible investment products on the APL. RIAA's RI Certification for investment process certifies that the product has a detailed investment process for investment decisions, disclosures around the process, and that the investment process has been audited.

Again, the FASEA Code of Ethics Standard 6 requires that advisers take into account the broad effects arising from the client acting on their advice and actively consider a client's broader, long-term interests and likely circumstances.

The CFA Institute has established an ESG Working Group that is "exploring the development of an ESG investment product standard," according to their website.

The future

The need to integrate ESG information into investment products continues to make its own case, as evidenced by the financial market impacts of the 2020 bushfire season and the coronavirus pandemic. Initial data suggests that companies that perform better on ESG metrics have outperformed their peers in highly volatile markets, and that funds that utilise ESG investing strategies as part of their investment process are also outperforming peers and benchmarks.

More ESG investing funds and investment options will continue to flow to market, based on demand from investors, and a push by institutions to further integrate ESG strategies into their decision making process. Fund managers and superannuation funds are augmenting their capacity to analyse ESG data, either through creating new products related to ESG analysis or augmenting existing capabilities to include ESG analysis, and/or through continued uptake of third party data and products.

While there are still bottlenecks in the ESG investing space, both due to adequate information, products and fund options, the continued drive from consumers and the increased need to take material ESG issues into account when making investment choices will push the industry forward.

Glossary

Active ownership: The process of engaging with invested companies and using proxy votes in annual general meetings.

Asset stewardship: Responsibly managing an asset on behalf of the asset's owners. The Financial Services Council (FSC) maintains an asset stewardship code that is compulsory for its fund manager members.

Environmental: How and why the physical environment materially impact on risk and return and play into decision making by investment and corporate leaders – climate, waste, water, natural capital/natural resources, etc.

Engagement: The process of communicating with invested companies' management and boards with the aim of a) increasing knowledge for analysis and investment decision-making and b) informing companies of investor expectations on performance, specifically on ESG grounds.

ESG integration: The ways in which material environmental, social and corporate governance information is analysed and included in the investment process to mitigate risk and enhance return.

Ethical investing: Using ESG metrics in an investment process that includes taking an asset owner or investors' moral views into consideration when designing a portfolio.

Governance: How and why the ways in which institutions manage impact on risk and return and play into decision-making by investment and corporate leaders. Board and executive decision making, human capital management, executive remuneration, diversity and inclusion, corporate culture, etc.

Impact investing: Investments that explicitly target positive performance on social and/or environmental metrics as well to financial performance.

Negative screening: Removing potential investments in companies and/or sectors that are deemed as posing risk on ESG metrics.

Positive screening: Increasing investments in companies and/or sectors that are deemed to have stronger performance on ESG metrics.

Responsible investment: A term that encompasses a full spectrum of activities that use ESG information to design portfolios and investments that have an enhanced view of financial risk and return, including impact investing: Allocating capital towards projects that are explicitly designed to return a positive social and/or environmental benefit as well as financial return.

Social: How and why members of societies materially impact on risk and return and play into decision-making by investment and corporate leaders – human rights, social license to operate, community engagement, future of employment, financial inclusion/exclusion.

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