Qualities of an Authentic Asset Manager with ESG Ambitions

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There are different ways an organization can attract and engage its various stakeholders. Having an inspiring purpose articulated in the form of a mission statement may be one of the most effective ways. An even simpler concept is presented by Simon Sinek, the British-American author, who offers "WHY" as an influential notion in his impactful book "Start with why".

Sustainable sales and long-term growth are often enabled when an organization is truly capable of inspiring trust in its customers and other stakeholders. Just like in any other business, asset managers also need to be able to articulate their "Why" clearly as their clients want their investments to create a genuine positive impact while generating a return. We believe this is possible.

Define the Why

Within asset management, the story of recent years has been the emergence of sustainability or ESG tainted products. Redecorating existing funds to create an ESG look-and-feel has been a new trend on the back of substantial flows into ESG products. Yet many investors and clients are very smart and they are developing the skills to be able to tell very easily if an investment strategy is genuinely authentic. Besides, regulators also have started paying attention, especially in Europe, to the issue of funds which use pretended or misinforming names.

This is the reason why asset managers with ESG ambitions really need to be very careful and define their Why immediately. An important point here is to define ESG. Here we mean using the ESG lens to create a positive impact as opposed to risk management. The difference is crucial as we would argue that every asset manager should screen for ESG risks. The positive non-financial impact objective is much harder and requires commitment that percolates through the organization starting from the top and the broader definition of the why. Clients are very smart and they are developing the skills to easily distinguish if an asset manager is not authentic. A key test is to go right to the top. Is the board walking the walk and talking the talk? Do board members have expertise in sustainability and do they have ESG-related KPIs? If asset managers are unable to back their marketing messages with their own actions, then clients will straight away see a marketing effort rather than a genuine intention.

What are some of the other things that asset managers need to do these days which they did not have to do before? Manage relationships and manage stakeholders. In the past – for example 10 years ago, when ESG was not as center stage in investments as it is now, dialogue was still key. However, now the number of stakeholders has increased substantially, including getting the buy-in from various market participants like clients, regulators, NGO's etc.

Delivering on a purpose we have formulated in our own minds is always easier than receiving acceptance from others, which requires leadership skills to convert ideals into actionable goals.

Collaborate

If asset managers want to have a meaningful influence on corporates and policy-makers, they need to collaborate with other industry players, asset owners and NGOs – even if you are like the size of BlackRock then it is not enough. Examples of those are Climate Action 100 +, the Net Zero Asset Owner Alliance or the Climate Bonds Initiative. Simply signing up to one of those groups is not enough though and asset managers would need to go beyond the marketing declarations. One difficulty is that one has to be very specific when trying to influence a corporate. There are so many aspects that one can engage on – biodiversity, gender diversity, net zero, circular economy, etc. – So, one has to be both very specific in terms of objectives and very knowledgeable in that particular area. For example, Climate Action 100 + is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. This is specific. However, it is still not enough. You have to understand the sectors (cement, steel, chemicals, etc.) both technically and financially extremely well in order to support corporates to pursue achievable and realistic pathways towards their net-zero commitments. Going back to the asset manager itself, that engagement, be it with the NGOs and associations, requires a lot of work, resources, and dedication. To be credible, it would have to go beyond the subscription fee to be part of the alliance. An example is ESG Portfolio Management leading an engagement with Kellogg Co. asking to reduce plastic waste and to search for more sustainable alternatives. They used the PRI collaboration platform to invite further asset managers to support the initiative. Also, they asked experts from the Ellen MacArthur foundation and non-profit foundation As You Sow for support.

Use data and regulation appropriately

Data is very important. We identify three key steps: data sourcing, data integration and data disclosures. Here is a warning though. Data is a measurement tool to achieve the ESG ambitions of the asset manager. It is not so much on how much but how data is being used to achieve and monitor its progress towards an ESG objective. Hence the crucial importance of how the ESG objective ties in with the definition of the Why in the first place.

Data is not the panacea. First, ESG is broad as a concept and is lacking measurement indicators, lots of it is very qualitative and at times cultural. The EU is trying to codify parts of the ESG world as much as it can. Starting with the taxonomy for climate change adaptation and mitigation. However, in our opinion, given the qualitative nature of some of the objectives, it won't be able to fully quantify ESG. Regulation for funds is helpful but again not the panacea both for the investor and the asset manager. Complying as an article 8 or 9 fund under the European SFDR regulation is not the definitive answer for labelling a strategy as authentic. There are many loopholes that asset managers can exploit to make their strategy comply. But again, investors are smart.

Conclusion

ESG is not an end objective in itself but a journey to deliver a better planet. We need to ask why at every stage and not get swayed by what is considered to be trendy or by some imitation products coming to the market. Being ESG credible and authentic requires fund managers to rethink their purpose both as individuals and as organizations. Adapting and asking why helps asset managers explore ways to have a genuine impact on society through their investments.

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