

# A Perspective on ESG Investment

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18<sup>th</sup> February 2021

## Topics

- What is ESG?
- Why ESG? – Pros and Cons
- Three reasons why we must embrace it
- Regulatory developments
- The UN Framework – UDSDG / UNPRI
- Evolution of ESG investment approaches & the Irish unit-linked ESG product landscape
- Q & A

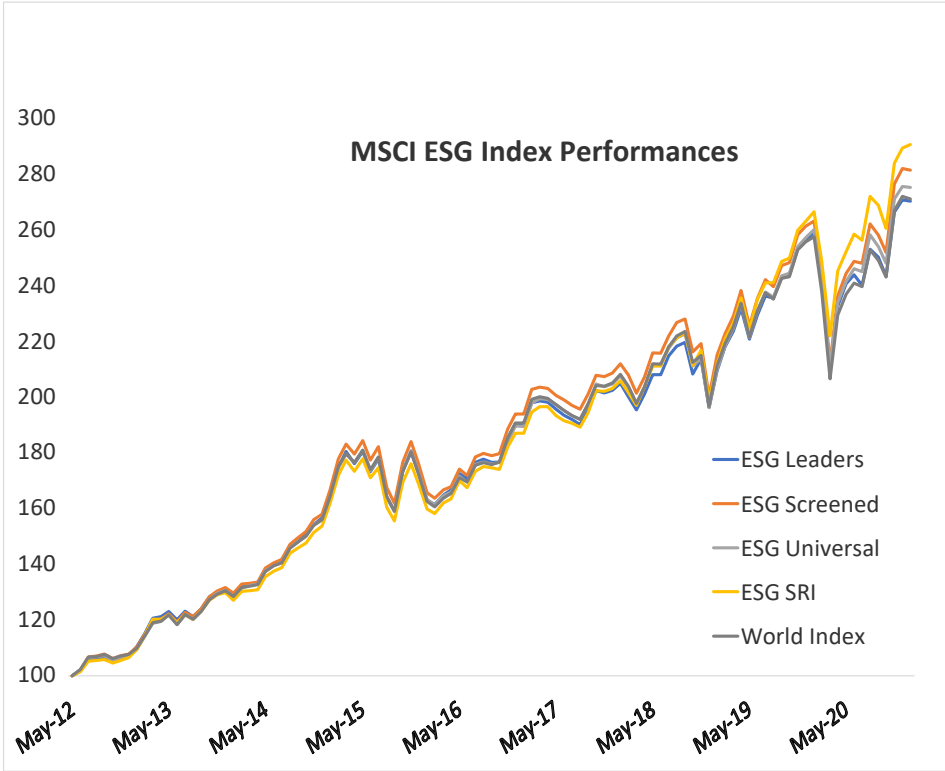
## What is ESG?

ENVIRONMENTAL	SOCIAL	CORPORATE GOVERNANCE
Carbon emissions	Community relations	Board structure
Climate change risks	Diversity issues	Bribery and corruption
Energy usage	Employee relations	CEO/Chairman duality
Raw material sourcing	Health and safety	Executive compensation
Supply chain management	Human rights	Shareholder rights
Waste and recycling	Product responsibility	Vision and strategy
Water management		Voting procedures

Investing in a way which takes account of a range of **E**nvironmental, **S**ocial and **G**overnance factors

*...also termed **Socially Responsible Investment** / **Responsible Investment** / **Sustainable Investment***

# Does it Enhance Investment Returns?



Index	Annual Return
	<i>May-12 - Jan-21</i>
ESG Leaders	12.0%
ESG Screened	12.6%
ESG Universal	12.3%
SRI	13.0%
MSCI World Index	12.1%

**No convincing evidence in either direction**

# The Contrarian View

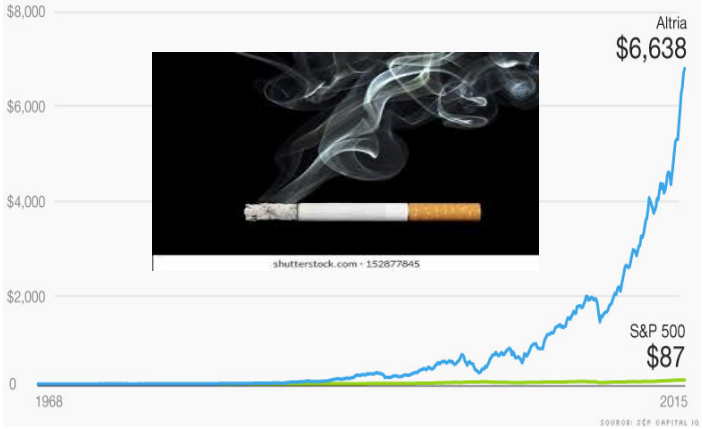


“There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”

— Milton Friedman

tags: economics, ethics

\$1 invested in 1968



## What Trumps the Contrarian View....

Client Demand



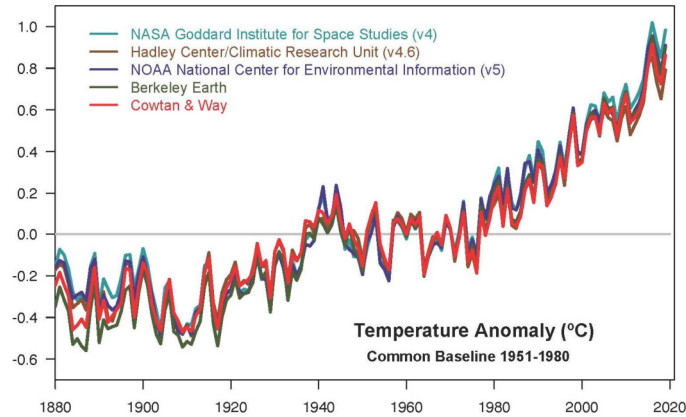
Prudent Risk Management



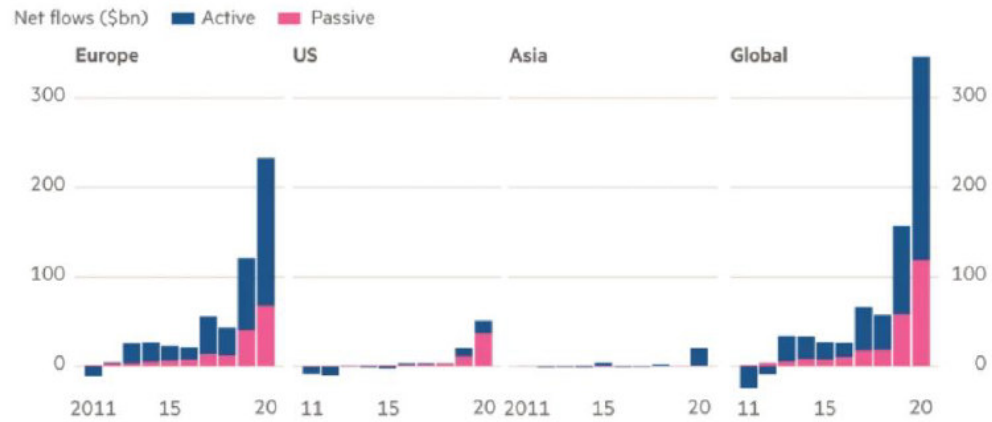
Regulatory Obligations



## Client Demand



*People care about ESG ... and younger people care more*



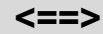
Source: Morningstar  
© FT

Net flows to ESG Funds 2011 - 2020

*Financial Times – 06-Feb-21*

# Prudent Risk Management

Applying ESG Principles



Reducing Portfolio Tail Risk

## Example 1

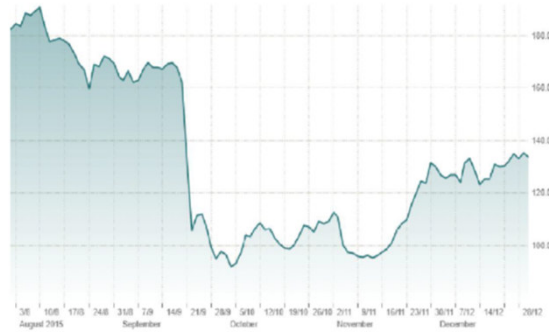
BP / Deepwater Horizon 2010



11 people killed  
Share price down 54%  
Total cost to BP \$65bn

## Example 2

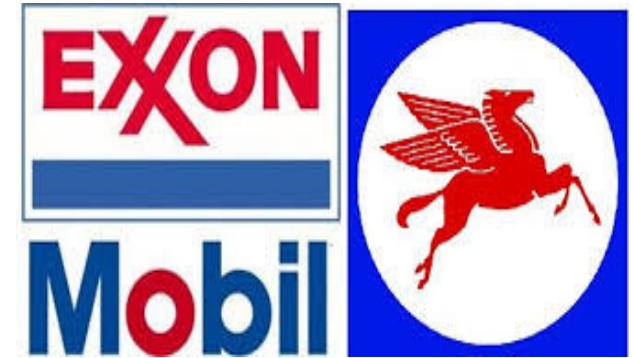
Volkswagen / Dieselgate 2015



Share price down 52%  
Total cost to VW \$34bn

## Example 3

Exxon Mobil / Stranded Assets



	\$bn	%
Oil & Gas Reserves & Related Equipment	211	58
Other Assets	152	42
<b>Total Assets</b>	<b>363</b>	<b>100</b>
Price/Book Value	1.17x	



# Risk Management – Why ‘S’ and ‘G’ Matter

## Sports Direct's Mike Ashley apologises for poor Covid-19 actions

Mark Sweney and Simon Goodley

Fri 27 Mar 2020 08.23 GMT

*Sports Direct workers say they're being forced to work despite being on furlough*



## Sports Direct Shares Plunge – Here Is Everything You Need To Know

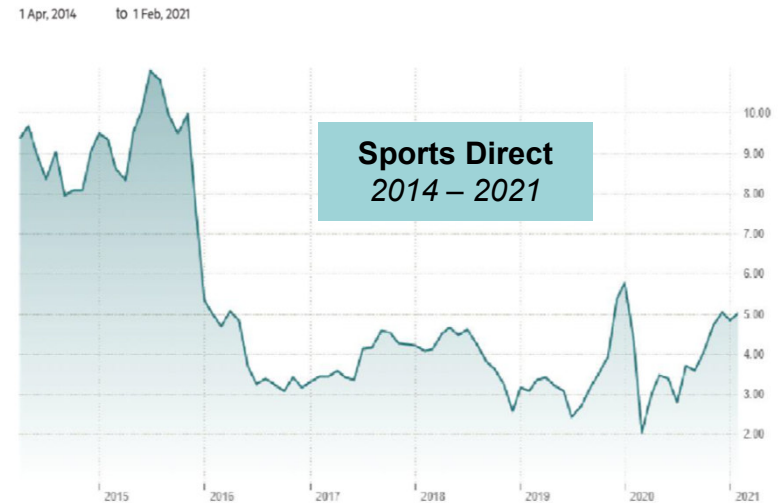
The embattled company was called “an embarrassment to UK corporate governance” after the chaotic way it announced its results on Friday.

Mike Ashley admits Sports Direct staff effectively paid below minimum wage

**Question raised over Mike Ashley's brother's company used for Sports Direct deliveries**  
 Posted 10th June  
 By Ben Stevens – August 23, 2016

## Sports Direct staff 'not treated as humans', says MPs' report

© 22 July 2016



## Some Key Regulatory Developments

Regulation/Directive	When?	Content?
Non-Financial Reporting Directive	Aug-17	Mandated Annual Report disclosures by large PLCs on ESG matters
Shareholder Rights Directive II	Mar-20	Mandatory shareholder engagement policies for institutional investors
EU Taxonomy Regulation	Jul-20	Framework for classification of economic activities with reference to their sustainability characteristics
IORP II	<i>Soon!</i>	Wide-ranging provisions on organisation and governance of pension schemes, including mandatory policies and disclosures on ESG matters
Sustainable Finance Disclosure Regulations (SFDR)	10-Mar-21 (Phase 1)	Mandatory disclosures on sustainability issues by asset managers and investment advisors

## IORP II - Provisions on ESG Issues

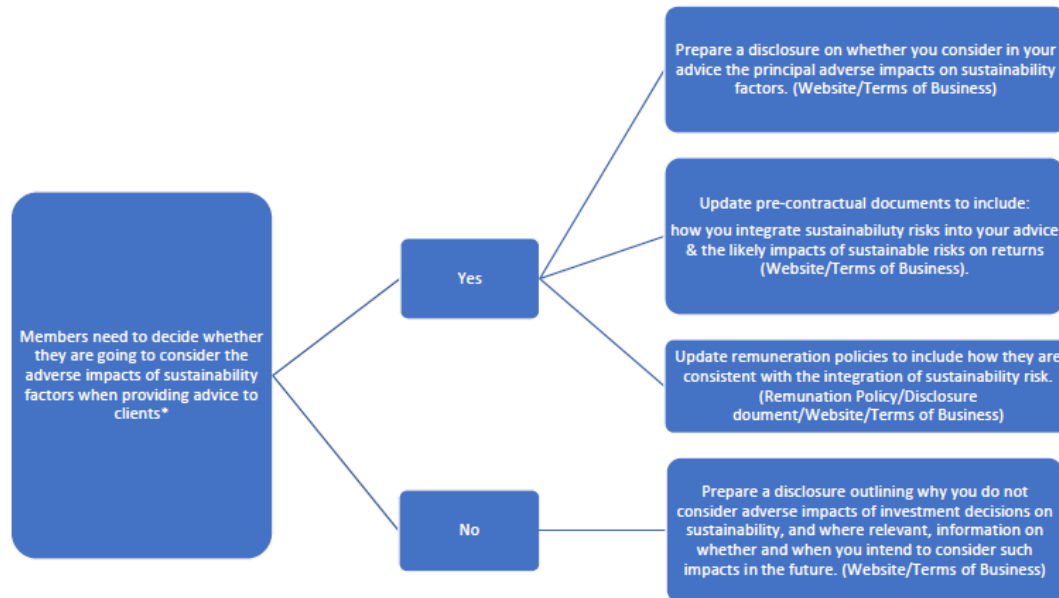
- All pension schemes to conduct a Risk Assessment of their activities
- Trustees encouraged but not obliged to take account of ESG factors in the risk assessment and in formulating investment policy
- Trustees must disclose whether and how ESG factors are taken into account
- Information on the above to be made available to all prospective members before they join

## SFDR – Phase 1

*Financial advisors must disclose whether and how they consider principal adverse impacts of their investment advice on sustainability factors. If they do not consider them, they must state clear reasons for not doing so, and state whether and when they will commence such consideration.*

### Brokers Ireland Guidance

What members need to do?



*For more information see  
Allen and Overy website:*

[https://www.allenoverly.com/global/-/media/allenoverly/2\\_documents/news\\_and\\_insights/publications/2020/10/sfdr\\_new\\_esg\\_disclosure\\_regulation\\_sfdr.pdf](https://www.allenoverly.com/global/-/media/allenoverly/2_documents/news_and_insights/publications/2020/10/sfdr_new_esg_disclosure_regulation_sfdr.pdf)

## UN Framework

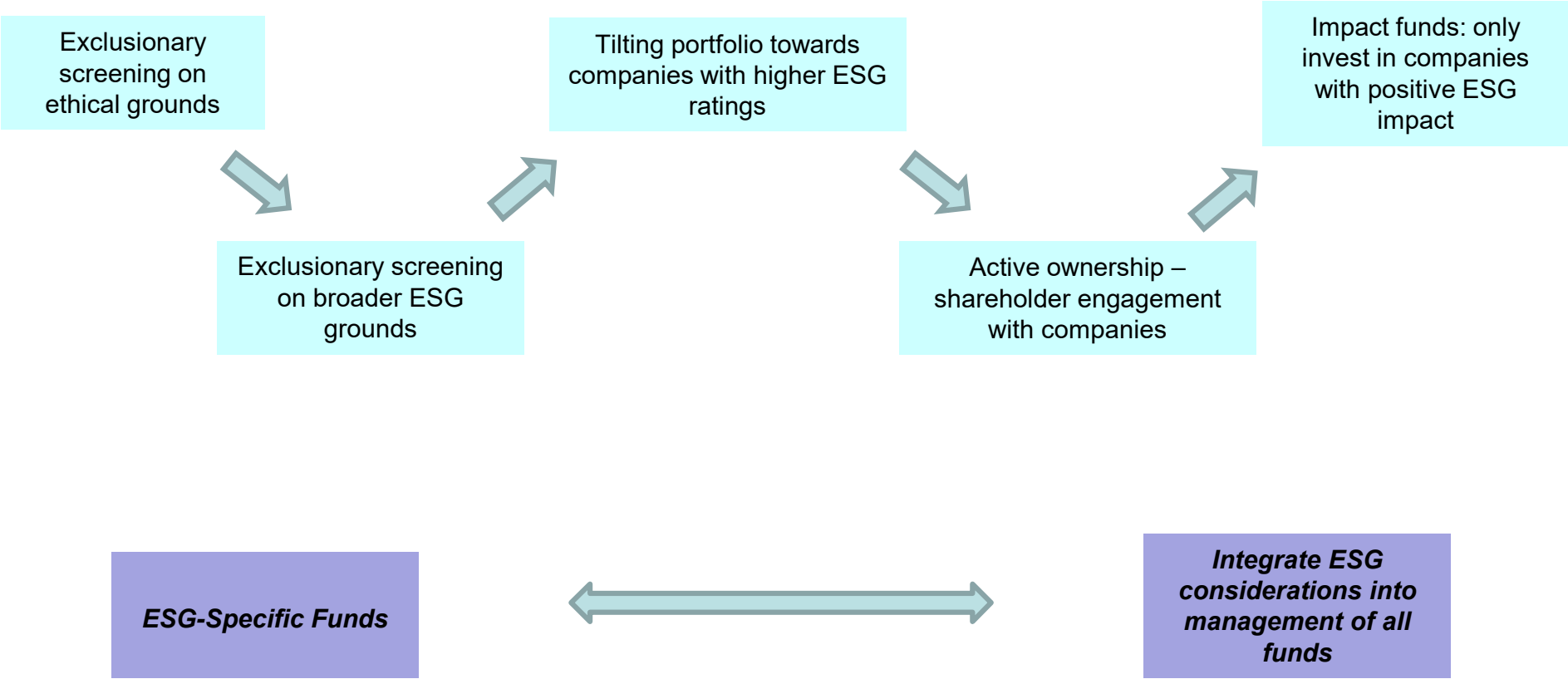
### UNSDG UN Sustainable Development Goals



### UNPRI UN Principles for Responsible Investment

- 1 We will incorporate ESG issues into investment analysis and decision-making processes.
- 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4 We will promote acceptance and implementation of the Principles within the investment industry.
- 5 We will work together to enhance our effectiveness in implementing the Principles.
- 6 We will each report on our activities and progress towards implementing the Principles.

# The Evolution of ESG Investment Approaches



## The Irish Unit-Linked ESG Product Landscape

	Ethical Funds			ESG Funds			Thematic/ Impact Funds
	Equity	Corporate Bond	Multi- Asset	Equity	Corporate Bond	Multi- Asset	Equity
<i>Lifeco 1</i>	Y			Y		Y	
<i>Lifeco 2</i>				Y			
<i>Lifeco 3</i>							
<i>Lifeco 4</i>	Y		Y				Y
<i>Lifeco 5</i>	Y				Y	Y	Y

**Total assets: €0.9bn – 1.0bn**

## **General Disclosures**

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