

Do the evolution – from screening towards ESG holistics

Natacha Guerdat

Ulrike Kaiser

Jean Laville

Since 2000, the market for socially responsible investment (SRI) has grown considerably. It is a relatively heterogeneous market, responding to different needs and philosophies. A broad definition of SRI is an investment philosophy that takes into account environmental, social and governance (ESG) issues.

Historically, the ideology of bringing together sustainability principles and investment has been implemented through ethical screening, also known as negative screening, which consists of aligning a portfolio's holdings with the investor's moral convictions by excluding industries or

companies whose activity is considered "non-responsible".

However, rising awareness of corporations' social and environmental impact among consumers and policymakers over the last twenty years, has raised interest in SRI within the broader investment community, first among pension funds, and more recently among private banks and family foundations.

The nature of SRI has changed, and the investment philosophy behind it has evolved significantly. Denying the impact of environmental, social and governance considerations on the long-term performance of companies today is rather difficult. Pension fund trustees have the responsibility to act in the best interest of their investors. Given their long-term performance objectives, it is not surprising that a debate would begin about what their fiduciary duty entails.

The trustee's duty also includes systematic proxy voting. There are increasing regulations requiring institutional investors to provide a statement on voting rights policy. Furthermore, we see the emergence of a new fiduciary capitalism, where large shareholders, such as pension funds, become active stockholders. They engage in a dialogue on ESG issues with the management of companies in which they are invested, usually when strategy and performance are disappointing. The engagement can take place on several levels. Usually a direct and discreet contact brings positive results. However, sometimes bringing the issue to a

broader audience is necessary, either through a shareholder's resolution or even through a press campaign.

Climate change and the debate about finite resources have been important catalysts in increasing public awareness about sustainability issues. The urgency of climate change, and the necessity of finding ways to address it, has increased greatly over the last five years. This has driven investment opportunities in fields such as clean technology and alternative energy, as well as the emergence of thematic investment products.

The diversity of SRI approaches reflects a still young and maturing market, but also the necessity to provide tailor-made solutions to a diversified investment community.

