



## **CAPSTONE PROJECT SUMMARY**

# **Environment Social and Governance reporting in Asset Management Company**

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## Introduction

The Asset Management Company (“AMC” or “Company”) is a global investment manager and technology provider. AMC provides investors with choice by offering a wide range of investment strategies across the risk spectrum: money market funds for cash investments, index exposures to markets globally through ETFs, factor strategies, systematic and fundamental equity, fixed income and multi-asset strategies, high conviction alpha strategies with higher risk and return profiles and illiquid alternatives.

Nowadays ESG become a substantial factor in investments industry. ESG criteria are used by socially conscious investors to examine investments and assess a company’s impact on the world. Having a strong ESG approach and proceed a high ESG performance, the asset manager can generate real financial significance and benefits such as:

- ✓ Being more appealing to investors;
- ✓ Outstanding performance. A research by an asset manager Amundi, showed that between 2014–2017, its portfolios with high ESG scores outperformed competing investments; <sup>1</sup>
- ✓ Better financial indicators. MSCI reports that high ESG rated companies faced lower cost of capital, have less volatile earnings and lower market risk compared to low-rated companies. <sup>2</sup>

An increase in disclosure, data and related research studies have enabled investors to take more of a “value” approach in investment, which seeks to exploit the relationship between ESG information and investment materiality. In the value-based approach, ESG information describes business risks or management performance as well as business opportunities. Developing standards of ESG reporting is presenting high-level overviews of the Company’s ESG mission statement and relevant business-level policy.

The main goal of the project is to analyse the Company’s current status in terms of ESG reporting, compare it with peers, and as an output, to develop a minimal standard of ESG reporting across a group of alternative investment funds.

## Analysis

Before going into details of analysis, I would like to outline two types of ESG reports: *ESG report* and *ESG impact report*. ESG report is section in fund’s commentary or account that describes general statements, approach, philosophy and principles of Environmental, Social

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1. Roncalli T. & Mortier V. January, 2019

2. G. Giese, L-F Lee, D. Melas, Z. Nagy, and L. Nishikawa. Vol. 45, No. 5, 2019

and Governance across firm and fund. ESG impact report is a report that uses special metrics to identify the impact of sustainability outcomes. Such metrics include renewable energy output, for instance, “>18,800,000 MWh of renewable energy generated from assets; enough to power >4,700,000 homes a year”, energy and water consumption (>15,700,000 m3 of water saved across renewables portfolios, equivalent to 6,280 Olympic-sized swimming pools a year) and asset-level ESG management and enhancement programs. These metrics are relevant for infrastructure, renewables, or other ESG-related funds.

The analysis consists of two waves:

Wave 1: Reviewing the current reporting schemes across the alternative investment funds, focusing on ESG sections,

Wave 2: The analysis of the competitor’s reports and marketing materials.

### Wave 1

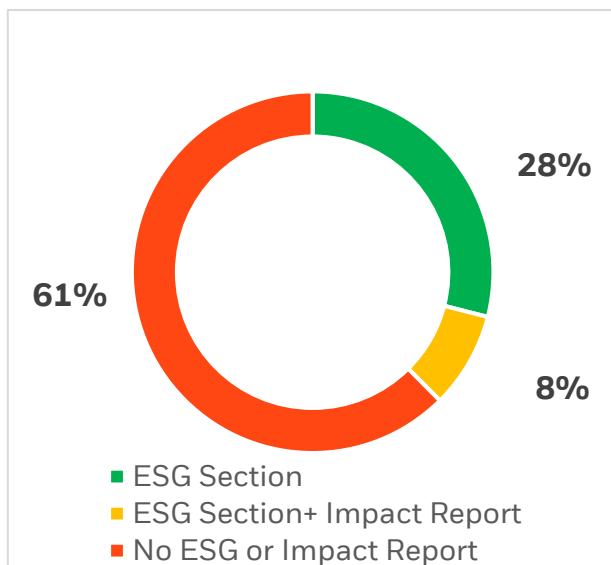
During the wave 1 analysis, I reviewed 95 fund reports across the alternative investment business. Main fund groups that have been analysed across the alternatives are direct and fund of funds private equity products, hedge fund of funds, real asset and credit businesses and other multi-focused alternative funds.

The analysis has shown that 1/3 of the reviewed reports included an ESG section and only one in every ten funds provided both ESG and ESG impact reports.

A more thorough analysis of the funds has shown that the best group of products in terms of ESG reporting is real assets. Only 34% of funds across real assets (35 fund’s reports were reviewed) didn’t have any ESG section in the reports. On the other hand, real assets is the only group of funds across alternatives, where in some reports both impact report and ESG section could be found (23% of funds). The next groups of funds are credit and private equity fund of funds products where 33% (out of 6 funds) and 21% (out of 28 funds) of the funds have ESG section in the reports, respectively.

Direct private equity funds, hedge fund of funds and multi-focused funds have shown to have a lack of ESG reporting. The research has demonstrated that 80% (out of 5 funds) and

Chart 1. ESG reporting across all funds



84% (out of 19 funds) throughout the hedge fund of funds and multi-focused products, respectively, did not contain the ESG section in the report. Additionally, direct private equity funds did not include ESG reporting in their quarterly reports.

## Wave 2

In the scope of the Wave 2 analysis was twelve asset management firms, which are direct competitors to AMC. The aim of the research was to find out what kind of ESG reporting schemes the Company's competitors have and use industry's best practices to create an ESG reporting template for AMC. Within the analysis, I reviewed publicly available monthly and quarterly commentaries (typically specify performance summary, market review, portfolio positioning, portfolio outlook and summary), fact sheets/product profiles (provide short summaries of the investments and typically detailed historical performance of the fund, risk analytics, and characteristics of the product), quarterly/semi-annual/annual reports (provide a deep analysis of fund's performance, market review, portfolio positioning, portfolio outlook and summary) and fund overviews across alternatives, credit, income and ESG funds. (Table 1).

**Table 1. List of Reviewed Competitors' Funds**

Angel Oak	Black Stone	Fidelity	Franklin Templeton
Financials Income Fund	Blackstone / GSO Long-Short Credit Income Fund	Fidelity Advisor New Markets Income Fund	Franklin Growth Allocation Fund
Multi-Strategy Income Fund	Blackstone / GSO Senior Floating Rate Term Fund	Fidelity Advisor Balanced Fund	Franklin Income Fund
Strategic Credit Fund	Blackstone / GSO Strategic Credit Fund	Fidelity Advisor Global Credit Fund	Franklin K2 Alternative Strategies Fund
UltraShort Income Fund	Blackstone Alternative Alpha Fund I	Fidelity Advisor Multi-Asset Income Fund - Class A	Franklin K2 Long Short Credit Fund
	Blackstone Alternative Alpha Fund II	Fidelity Advisor Real Estate Income Fund - Class A	Franklin Moderate Allocation Fund
	Blackstone Alternative Multi-Strategy Fund	Fidelity Advisor Strategic Dividend & Income Fund	Franklin Real Estate Securities Fund
	Blackstone Mortgage Trust	Fidelity Advisor Strategic Income Fund - Class I	Franklin Strategic Income Fund
	Blackstone Real Estate Income Fund	Fidelity Advisor Strategic Real Return Fund	Franklin Total Return Fund
	Blackstone Real Estate Income Fund II		Templeton Global Balanced Fund
	Blackstone Real Estate Income Trust		
Janus Henderson	John Hancock	J.P. Morgan	Loomis
Absolute Return Income Opportunities Fund	Alternative Asset Allocation Fund Class I	JPMorgan Diversified Fund - A	Global Allocation Fund
Diversified Alternatives Fund	Diversified Macro Fund Class I	JPMorgan Global Allocation Fund	Global Growth Fund
Global Allocation Fund - Growth	ESG Core Bond Fund	JPMorgan Income Fund	High Income Fund
Multi-Sector Income Fund	Infrastructure Fund Class I	JPMorgan Investor Growth & Income Fund	Strategic Alpha Fund
Multi-Sector Income Fund	Multi-Asset Absolute Return Fund Class I	JPMorgan Managed Income Fund	Strategic Income Fund
Value Plus Income Fund	Multi-Asset High Income Fund Class I	JPMorgan Realty Income Fund	
	Strategic Income Opportunities Fund	JPMorgan Realty Income Fund	
		JPMorgan Strategic Income Opportunities Fund	
		JPMorgan Total Return Fund	
Lord Abbett	Pimco	Vanguard	T.RowePrice
Band Debenture Fund	All Assets Fund	ESG Developed World All Cap Equity Index Fund - Income	Credit Opportunities Fund
Credit Opportunities Fund	Climate Bond Fund	Global Balanced Fund - Accumulation	Dynamic Global Bond
Income Fund	Commodity Real Return Strategy Fund	Global Balanced Fund - Income	Global Aggregate Bond
Multi-asset Balanced Opportunity Fund	Credit Opportunities Bond Fund	Global Bond Index Fund	Global Real Assets Equity
Multi-Asset Income Fund	Diversified Income Fund	Global Corporate Bond Index Fund	
Total Return Fund	Global Core Asset Allocation Fund	Global Credit Bond Fund	
	Income Fund	Global Emerging Markets Fund	
	Inflation Response Multi-Asset Fund		
	Low Duration ESG Fund		
	Mortgage Opportunities and Bond Fund		
	Multi-Strategy Alternative Fund		
	Real Estate Real Return Strategy Fund		
	Real Return Fund		
	Total Return ESG Fund		
	TRENDS Managed Futures Strategy Fund		

As a result of the analysis, I found that only Franklin Templeton has an ESG section in their semi-annual and annual reports. This report contains high-level information regarding the firm's approach to ESG, manager commentary on ESG analysis and ESG related risks. Likewise, product profile for some funds in Franklin Templeton has the description of

the stock selection process, where on each stage of selection they discuss ESG related factors that has an influence on this process.

On the other hand, none of the other eleven asset managers, that were in scope of the analysis are not providing any form of ESG reporting for revived funds. Having completed both waves of analysis I can conclude that according to the publicly available information AMC is ahead of its peers in terms of ESG reporting. I need to emphasize that all asset managers have plenty of funds, the information of which has limited distribution only across the investors of those funds, so we cannot see and analyse a full picture of the industry.

## **Creating of the reporting template**

The first stage in creating the reporting template is to make sure this is aligned with the ESG reporting standards across the industry. There are two main methodologies for financials firms reporting on ESG: MSCI ESG Fund Ratings Methodology and MSCI ESG Business Involvement Screening Research Methodology. These methodologies discuss how process ESG information, the way of applying the variety of ESG metrics to the funds and how funds receiving ESG scores. After getting familiar with the methodologies provided by MSCI, my focus was on developing the ESG reporting template for funds across the credit business. The aim was to create a template that AMC can leverage for the other asset classes as well.

Based on Due Diligence Questionnaire and Request for Proposal across the credit funds, I defined the most appropriate sections which I would like to outline in the report. This is especially important given that credit funds are not explicitly ESG focused funds, but most of the funds do have ESG approach and ESG integration within their investment process which is important to share with the investors. Please see the reporting template in the next page.

# Environmental, Social and Governance

## Our approach to ESG

Standard form of language across all funds provided by sustainable investing team and describes the firm view on sustainable investing and ESG.

## Fund's approach to ESG

Describes the view of the fund on ESG and sustainable investing, considerations regarding ESG material and information.

Our approach to sustainable investing is underpinned by the following principles:

**1**

### ESG integration within investment process

Initial ESG assessments are performed to identify any ESG 'deal breakers' or issues requiring more extensive due diligence'. Analysis helps inform decisions on whether to progress the investment opportunity or not.

**2**

### Mitigate Risk and maximize opportunities

A conviction that such an approach is at the core of sound risk management and can have a material impact on financial performance, while also maintaining the recognition that sustainable investing can also represent an opportunity to deliver enhanced returns.

**3**

### Client communication and reporting

We recognize the importance of transparency with key stakeholder such as our clients as well as counterparties and internal / external investment partners.

**4**

### Commit to continual improvement

Aiming for meeting and, where possible, exceeding industry best practice, together with a commitment to continual improvement in sustainability performance across our business.

In categories 1-4 the material represents the template of contents that should be included in real reporting with information related specifically to each fund.

## References

- 1) “The Alpha and Beta of ESG investing” Roncalli Thierry, Mortier Vincent. January, 2019  
<https://research-center.amundi.com/page/Article/2019/01/The-Alpha-and-Beta-of-ESG-investing>
- 2) “Foundations of ESG Investing – Part 1: How ESG Affects Equity Valuation, Risk and Performance” Guido Giese, Linda-Eling Lee, Dimitris Melas, Zoltan Nagy, and Laura Nishikawa. Vol. 45, No. 5, 2019  
<https://www.msci.com/www/research-paper/foundations-of-esg-investing/0795306949>

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