

## ESG in Passive Income Investing

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# Purpose of this discussion paper

- Demystify the misconception that passive investment does not allow for the incorporation of ESG
- Investigate how the incorporation of ESG can be achieved in both **investment decisions** & in the execution of **active ownership**
- Share **potential solutions** to **challenges** and barriers that investors have encountered

# Misconceptions

## Passive investors ≠ Responsible Investors ?

### ■ Investment Process (Principle 1)

- *Enhance Returns*
- *Strengthen Risk Management*
- *Align Strategies with the Priorities of Beneficiaries and Stakeholders*

### ■ Active Ownership (Principle 2)

- *Drive Market Transparency Systematically*
- *Cope with Systematic Challenges Collectively*
- *Demonstrate Leadership*
- *Collaborate Collectively with Other Asset Owners*

# How to Incorporate ESG into Passive Investments

## ESG in Passive Investments

### Investment Process

*(Principle 1)*

ESG Indexes (screening, best in class, tilts approach ..Etc)

### Active ownership

*(Principle 2)*

“A Practical Guide to Active Ownership in Listed Equity “

Valeria Piani, Feb 2018, PRI

# Challenges and Current Good Practices

	Market Cap Weighted Index		Alternative Beta	Current Practice (Case Studies)
	Pure Tracker	ESG Ex./Tilt/Bias	(Factor/Smart Beta Investing)	
Data Related	Data Availability/Quality/Consistency			Comparing and Contrasting Data sets EU Benchmarks Regulations/EU HLEG GPIF AP1
		<ul style="list-style-type: none"> <li>- ESG data/Index Transparency</li> <li>- Standardisation of ESG definition</li> <li>- Static ESG factors from dynamic real world issue</li> <li>- False Accuracy</li> </ul>		
Portfolio Related		<ul style="list-style-type: none"> <li>- Fees</li> <li>- Unintended Consequence</li> </ul>		Robeco SAM/ Swiss Re
	Portfolio Alignment			
Engagement Related	<ul style="list-style-type: none"> <li>- Regulatory constraints</li> <li>- Dilution of collaborative efforts - Difficult for mid/small asset</li> </ul>			GPIF

Source: PRI

# Implementing responsible investment strategies for passive portfolios

**Majdi Chammas**, Head of External Management, AP1

**Jessica Huang**, Director of Sustainable Investment, BlackRock

**Laura Nishikawa**, Head of Fixed Income ESG Research, MSCI

**Nathalie Wallace**, ESG Investment Strategist, State Street Global Advisors

Moderated by **Brian Rice**, Portfolio Manager, CalSTRS

# Next steps

## Publication 4Q 2018

Discussion Paper



## Panel sessions

PRI in Person Conference – San Francisco, 13 Sep. 2018

ESG in Passive Investments – 1Q 2019



Source: PRI

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Source: PRI