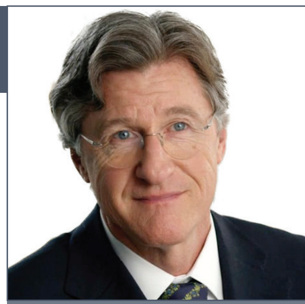
ADVANCEMENTS in ESG



JOHN STREUR
PRESIDENT AND CEO
Calvert Research and Management

The knock on ESG investing — putting money to work with an eye toward environmental, social and governance issues — has always been that to do "good" with their investments, investors had to give up return. But in the last five to 10 years, companies, not investors, have picked up the ESG baton to put this style of investing on par with traditional methods.

"Today, a significant amount of information is available about company performance on environmental, natural resource, social and governance performance metrics," said John Streur, president and CEO of Calvert Research and Management.

The reasons for businesses to effectively manage and disclose ESG metrics are simple: produce better products or services, improve the lives of employees, lower costs, drive profits and attract long-term investors. More investors are beginning to take notice. In the case of Calvert, the money manager is using a growing database of corporate ESG information to create a better mousetrap.

"Companies are differentiating themselves based on how they deal with environmental, social and governance issues. Every stakeholder to the company has an interest in knowing what's happening," Streur said. "Calvert has developed a proprietary research system designed to take this information and use it within well-constructed models just like you would think of a financial model."

The research covers a high percentage of global market cap, including about 1,500 companies in the U.S. The Calvert Research System, launched at the beginning of 2015, gathers the relevant information and produces scores that rate companies and help managers pick companies to invest in.

INVENTORY OF SECURITIES

"The scores allow us to understand which companies have risks that we would consider to be unattractive vs. companies that manage those risks well," Streur explained. "And that creates the inventory of securities that we're willing to invest in. That's about 70% of the overall universe of companies we look at."

The data may be the starting point, but Streur and his team of 16 analysts and researchers scrub it, analyze it and focus on the metrics that are material to business and other outcomes.

"Most large companies have a set of positives and negatives," Streur said. "But to make the ESG data relevant, our team analyzes the issues as well as the data to establish materiality."

Calvert uses the data to build indexes, which provide managers with a universe of securities — both stocks and bonds — to select from.

The trick, of course, is finding and capturing the data. Even while more companies are embracing environmental, social and governance policies, standard reporting methods have not been universally adopted. The Sustainability Accounting Standards Board has promulgated standards for every subindustry sector, but they are not mandated by the Securities and Exchange Commission, so companies are not required to use them. Streur and Calvert are founding members of SASB's Investor Advisory Group, a team of roughly 25 investors with a combined $20 trillion in AUM that works to advance disclosure and transparency.

Lack of reporting doesn't mean a dead-end for managers such as Calvert.

As Streur explained: "When a company isn't providing good information, we engage with them. If it doesn't improve, we may file a shareholder resolution and take it to a [shareholder] vote. We file resolutions for transparency and disclosure on a regular basis."

The advent of ESG data mining has, by and large, laid to rest the arguments that this style of investing is a fad and that returns are less-than-sparkling. From companies working on ESG issues, to investment managers using ESG factors to find alpha-generating securities, to asset owners looking to have an impact with their investment dollars, the trend has reached all corners of capital markets. ■

Calvert

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