

RI TOOL: A PORTFOLIO MANAGER'S PERSPECTIVE

RESPONSIBLE INVESTMENT | MARCH 2019



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Our proprietary responsible investment ratings is an innovative tool that combines ESG and financial stewardship data to create a single company rating for 5,500 listed equities globally. So how do our PMs use it?

How do the ratings help you analyse your portfolio/better research potential companies to invest?

The RI ratings represent another source of potential alpha. They help portfolio managers (PMs) and analysts to better focus on crucial responsible investing topics that need to be addressed when interacting with companies and their management teams. The back-testing that has been performed gives us confidence that the ratings will help us find those companies that are better positioned to deliver sustainable future cashflows.

Are there specific themes/issues in your portfolio, or in any given sectors, that you might pay closer attention to as a result of the ratings tool?

We approach RI from a holistic perspective and there are no specific issues of concern. Where the tool has been particularly useful is in giving us a greater understanding of a company before we speak to them, with particular regard to their carbon footprint among other risk factors.

For example, portfolio managers and analysts can now use the tool to quickly understand what a company's risk factors are and analyse its carbon footprint so that we can then prepare questions from a more informed standpoint.

The unique model combines financial stewardship with ESG factors to arrive at a single company rating between 1 and 5. Why do you think this combination is beneficial to the analysis of the companies you invest in/ would like to invest in?

The 1-5 ratings scheme is consistent with our approach to both fundamental and quantitative ratings and is easily understood by PMs and analysts. Traditional models generally focus on one component, but our model incorporates all potential risk factors to the sustainability of future cashflows.

Will you be using the ratings as part of your risk management toolset going forward?

We have fully integrated the RI ratings into our approach to research and portfolio construction, and we think of ESG risk in the same way as we think of risk to the income statement or the balance sheet. We consider these risks to be part of the holistic analysis and understanding of the future direction of a business. Integration is key.

Ultimately, the RI ratings are an additional tool that allow me to perform my role more effectively, rather than differently. They give me a greater understanding of the risks as well as the knowledge and opportunity to drill down further to establish where a company's future cashflows might be going.

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