

NEWTON

Investment
Management

▶ BNY MELLON | INVESTMENT MANAGEMENT

A WORLD IN FLUX: CAN INCREASING ESG INVESTMENT PROVIDE THE SPARK FOR POSITIVE CHANGE?

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FOR PROFESSIONAL INVESTORS ONLY

Please read the important information at the back of this material

PRE001102

Living in the age of disruption

Reaching a tipping point for action?



Only a crisis -actual or perceived - produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around.

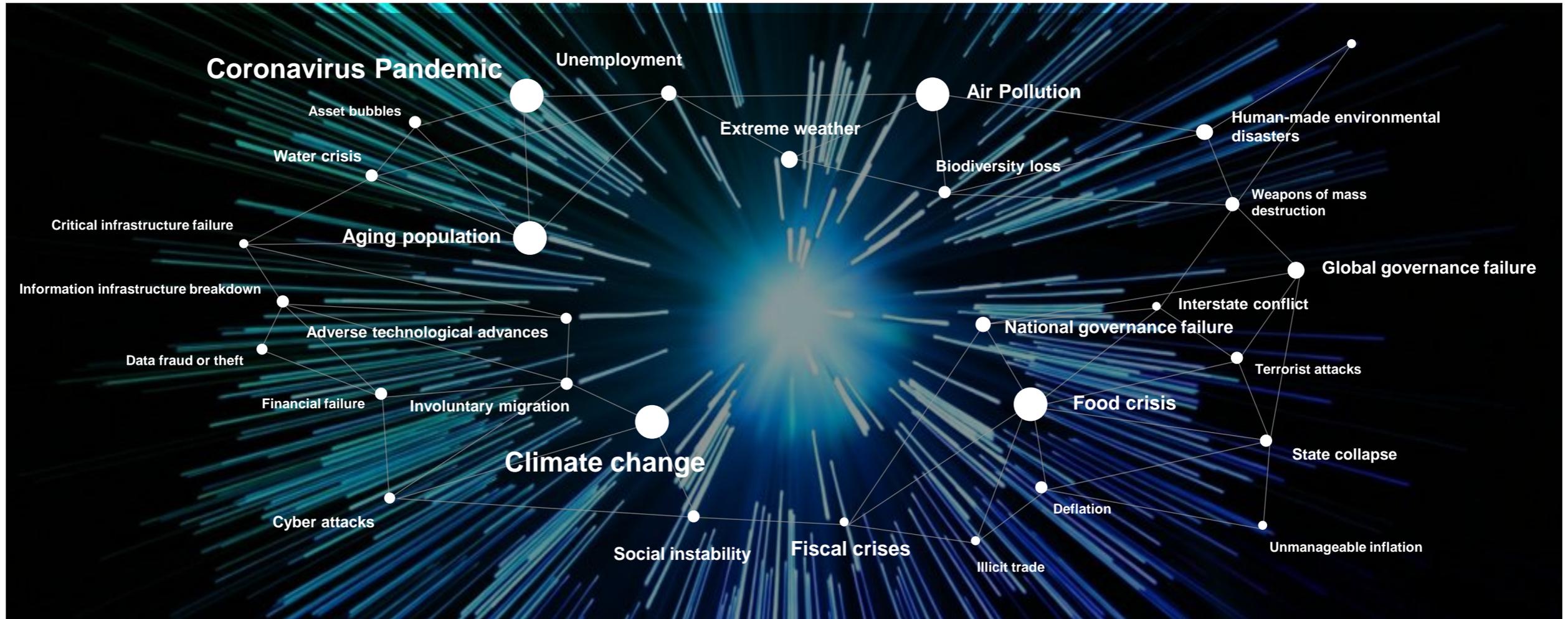
That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable.

Milton Friedman



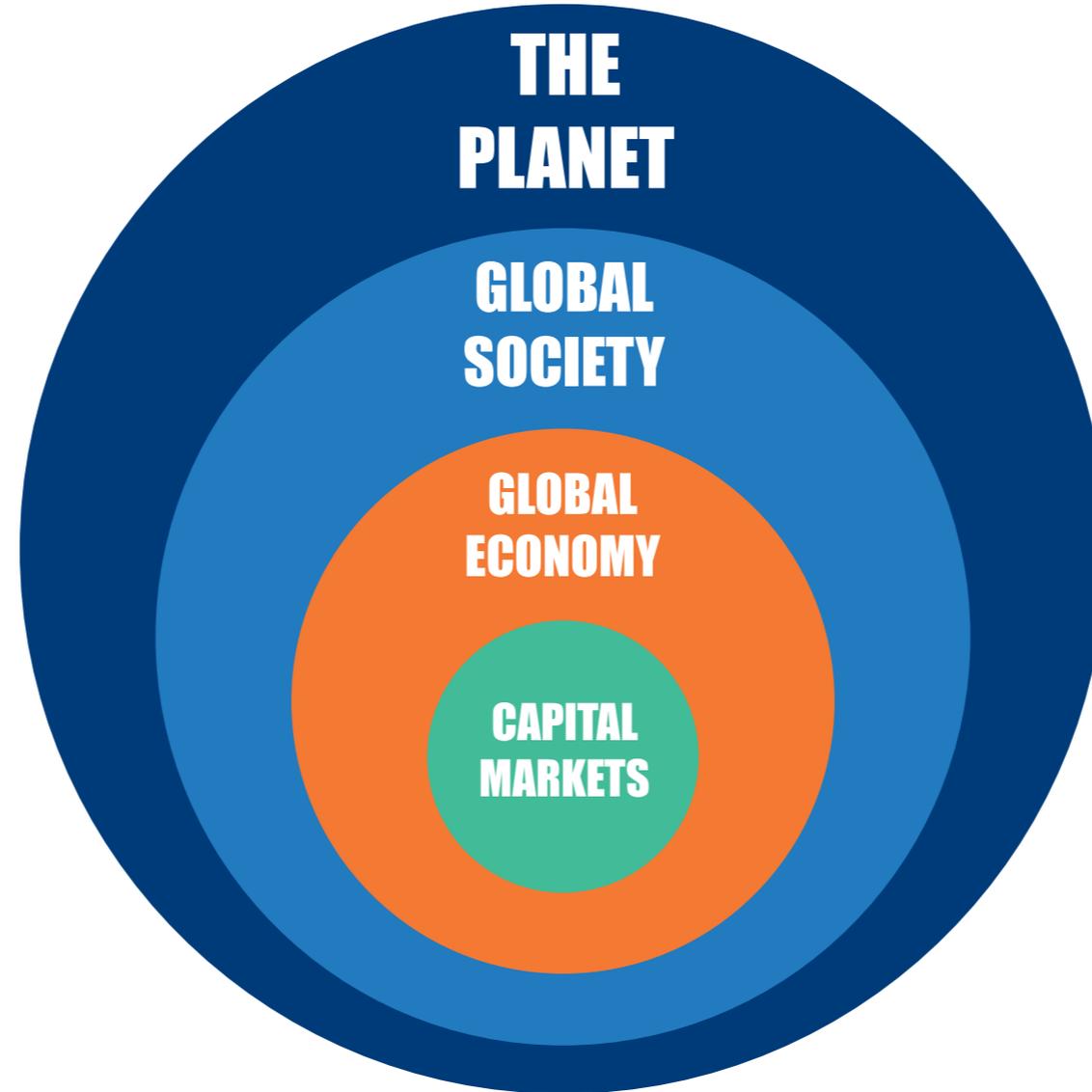
A world in flux

A complex, interconnected ecosystem



Source: World Economic Forum Risks Report 2020.

Economic entropy is part of “business as usual”



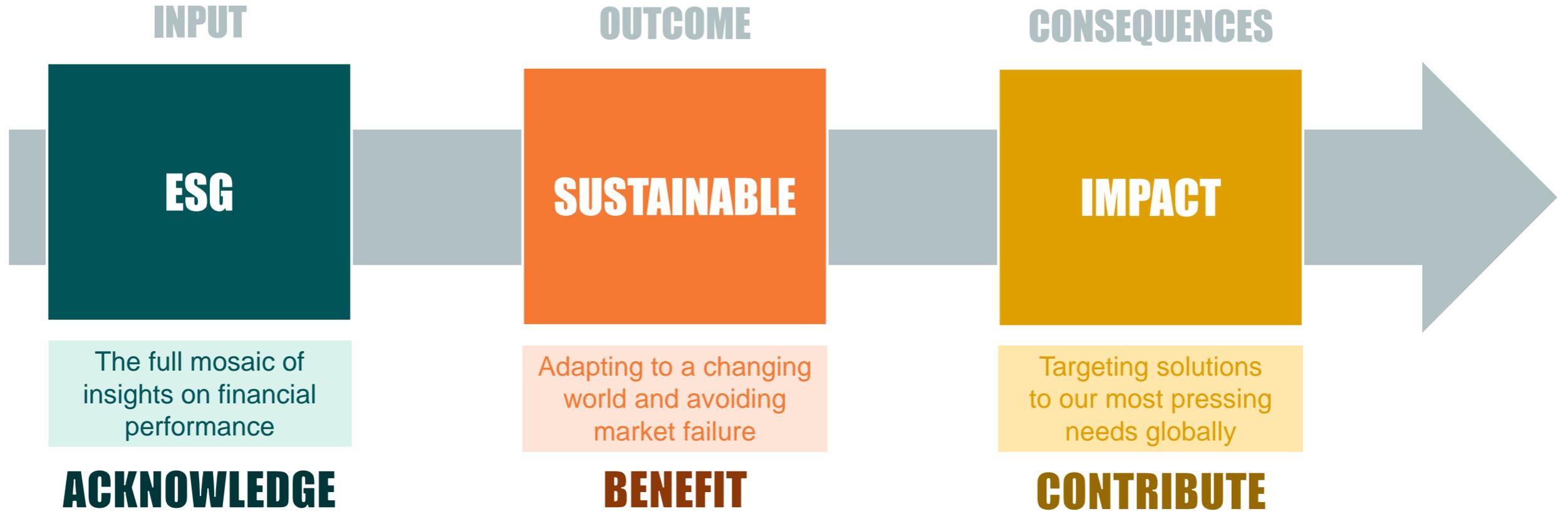
ESG issues

“Non-financial information” is a misnomer



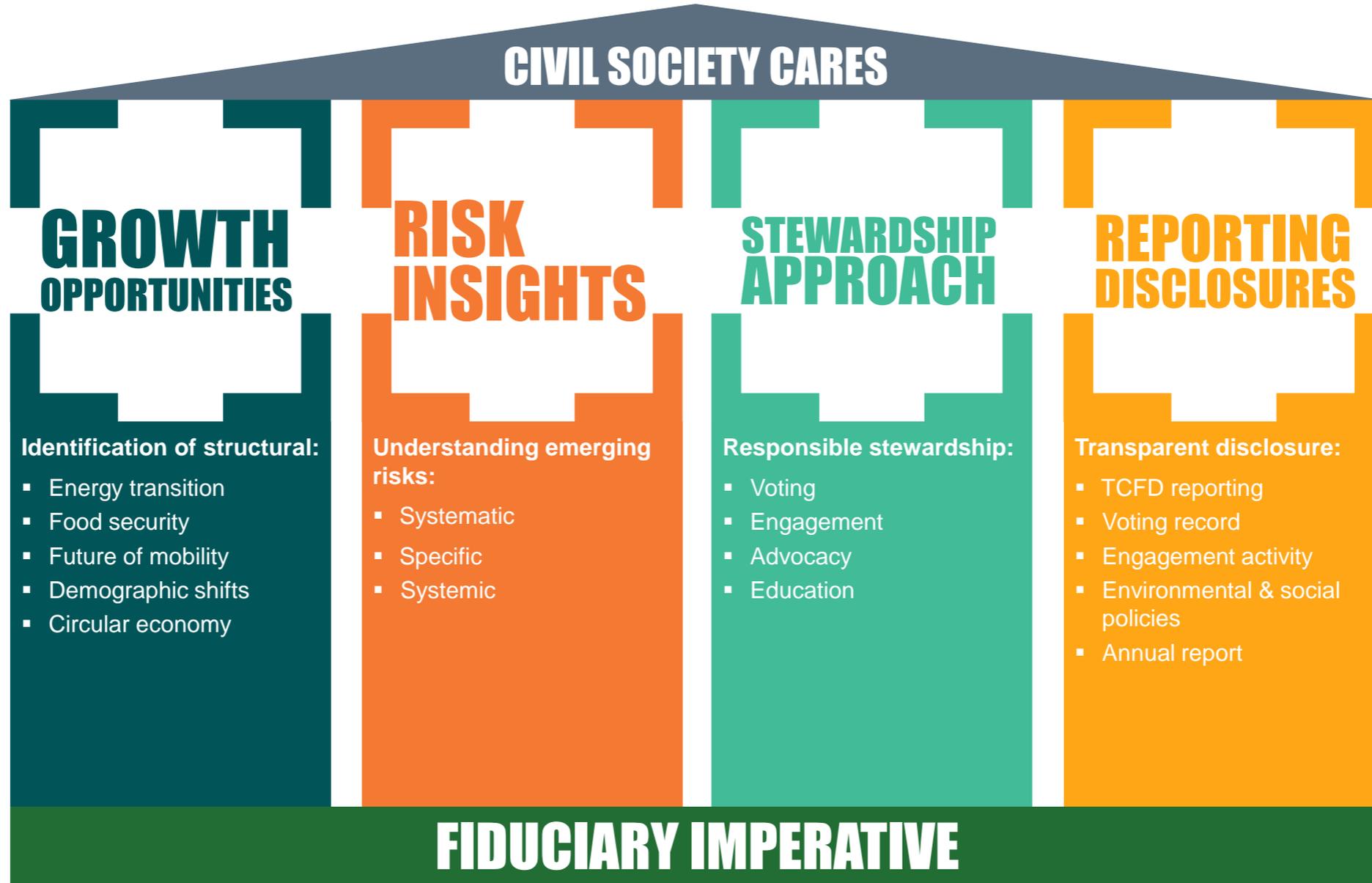
A rapidly evolving taxonomy of investment

Positioning yourself on the spectrum of capital



Four pillars of sustainable investment

A context-based approach



Four key areas of focus

Getting ahead of the curve

CLIMATE CHANGE POLICY

- Stance on climate change:
 - Acknowledge
 - Manage
 - Contribute
- Degree of integration into investment strategy
- TCFD reporting & scenario testing

STEWARDSHIP APPROACH

- Implementation of stewardship:
 - Investment manager(s)
 - Third-party overlay
 - Internal
- Influence of plan sponsor on policy focus
- Reporting needs

ESG REPORTING

- Approach to reporting
 - Integrated
 - Separate RI report
- Provides external clarity to approach

TRUSTEE TRAINING

- Technical knowledge needed:
 - Annual competency training
 - Investment committee responsibility
 - Separate responsible investment oversight
- A rapidly evolving landscape

Delivering engagement outcomes

A growing imperative

Engagement needs to be based on a strong, well researched arguments linked to a clear business case and recognition of the complexity of the company being engaged

Managing well the environmental and social impact of a business builds resiliency and supports long-term financial returns

Case studies along the timeline of engagement provide a narrative for the change being sought and a feedback of information on success

Recognition that not all issues are resolvable and divestment or avoidance can reduce exposure to stranded assets

Decision: internally led, delegated to external managers or an overlay?

An action plan for pension funds

Regulatory imperative

ACTIONS	COMPLIANT	VISIONARY
Principles	<ul style="list-style-type: none"> Awareness 	<ul style="list-style-type: none"> Integration
Competency	<ul style="list-style-type: none"> Assessment 	<ul style="list-style-type: none"> Focus
Integration	<ul style="list-style-type: none"> Opportunist 	<ul style="list-style-type: none"> Strategic
Documentation	<ul style="list-style-type: none"> Referenced 	<ul style="list-style-type: none"> Detailed
Review	<ul style="list-style-type: none"> Encourage 	<ul style="list-style-type: none"> Require
Stewardship	<ul style="list-style-type: none"> Delegated 	<ul style="list-style-type: none"> Principles led
Climate	<ul style="list-style-type: none"> Reporting 	<ul style="list-style-type: none"> Managed
Reporting	<ul style="list-style-type: none"> Information 	<ul style="list-style-type: none"> Transformative

What to look for in a investment manager

GOVERNANCE	Executive and senior management buy-in
PEOPLE	Size, seniority and skill ESG team
INTEGRATION AND PROCESS	Depth of asset class integration Bottom-up or top-down integration Firm-level versus fund level of ESG integration
DATA AND SYSTEMS	Breadth of ESG research tools
ENGAGEMENT/POLICY WORK	Nature of stewardship approach, including voting record Collaboration with external organisations
REPORTING	Depth and transparency of ESG reporting
COMPLIANCE	Public availability of process & procedure documents on ESG policies
INTERNAL AND EXTERNAL COMMUNICATIONS	Staff training on ESG issues and investment innovation
CORPORATE RESPONSIBILITY	Corporate social responsibility policies, reporting and implementation

Conclusion

Part of fiduciary purpose

Context based approach

Opportunity to reassess risk management and investment opportunity

Decide where to sit on the spectrum of capital

Prioritise on climate, stewardship and reporting with supportive trustee training

A lens for supporting better fiduciary outcomes



Important information

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