THE GROWING IMPORTANCE OF ACTIVE ESG MANAGEMENT

Sustainable Investing

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CARMIGNAC
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Foreword by Alex Edmans

The substantial shift towards sustainable or Environment, Social and Governance (ESG) investing is highly welcome and long overdue. Sustainable investing has the potential not only to address major societal challenges, and thus repurpose capitalism into a form that works for all, but also improve long-term financial returns for clients.

However, there is a substantial variation in what actually constitutes “ESG investing”. Sustainable funds employ a wide range of different approaches, and so clients cannot simply put their money into a fund that’s marketed as sustainable and hope to achieve superior social and financial returns. Indeed, the evidence on the performance of sustainable funds is much more mixed than commonly portrayed.

One important factor is whether a fund employs an active or passive investing strategy. Passive investing has grown substantially over recent years, for both traditional and ESG strategies. Indeed, there are logical reasons for why clients may prefer passive funds for traditional investment strategies, e.g. those based on financial factors such as size, value, or momentum. Smart beta funds can assess these factors more accurately and at lower cost than active funds.

However, ESG investing is an area where active approaches may have a particular advantage. This is for three reasons. First, even for ESG factors that can be quantified, they need to be understood within a company’s strategic context. Certain ESG factors may not be material for a particular stock, and higher scores may not always be better. Indeed, the wide disparity between ESG ratings shows that there is no unambiguous way to assess whether a company is truly responsible rather than just greenwashing. Second, many critical ESG dimensions are qualitative. For example, fair treatment of employees involves not only fair wages, but providing them with meaningful work and skills development. Third, ESG data is often a highly lagging indicator. It measures the output of ESG initiatives, but changes to these initiatives themselves may take a long time to have full effect. Efforts to create a culture that fosters diversity of thinking and tolerance of failure may take years before they show up in measures such as patents generated and patent citations.

While a passive approach will be driven exclusively by the data, an active approach will *use* the data alongside other factors. Investing in a company is similar to “investing” in employees by hiring them. Even though computer programmes can analyse applicants’ CVs and test scores, and trawl through their social media accounts, these are often no substitute for interviewing a job candidate, to put this data into context and understand what lies beyond the data.

This does not mean that active investing is always superior to passive investing, even in ESG. There will be active investors who use the wrong factors, make incorrect assessments on difficult dimensions, or whose value added will not justify the extra cost. However, it does mean that significant value can be created by active investing approaches that are balanced, rigorous, and evidence based.

Alex Edmans, Professor of Finance at London Business School and author of “Grow the Pie: How Great Companies Deliver Both Purpose and Profit”

Introduction

Over the last decade, sustainable investing[1] has garnered exponential interest from the financial industry and has led to a significant rise in the number of sustainable funds. Sustainable investment in Europe reached a record of more than €850 billion at the end of July 2020, an increase of over 55% from the 2018 level of €543 billion. Furthermore, sustainable funds' inflows amounted to €101 billion towards the end of this period, despite non sustainable funds' outflows of €23 billion.

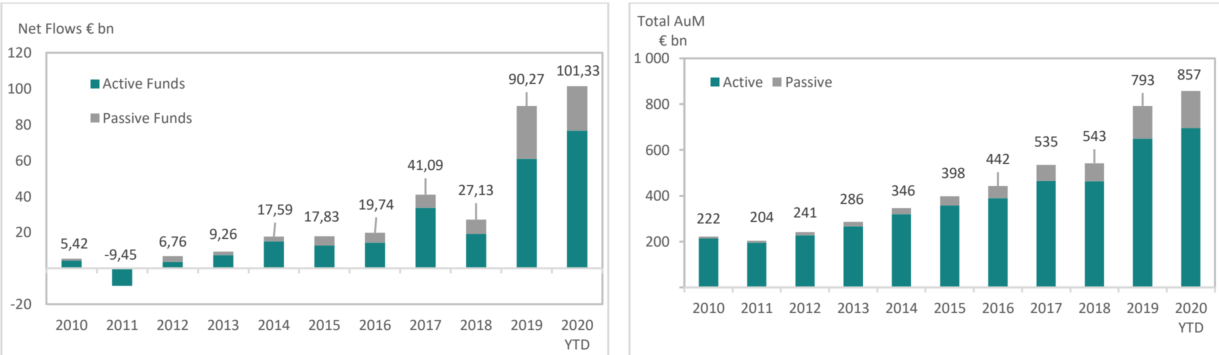

Figure 1: LHS Chart - Annual net flows into sustainable funds globally[2]; RHS – Cumulative sustainable funds globally

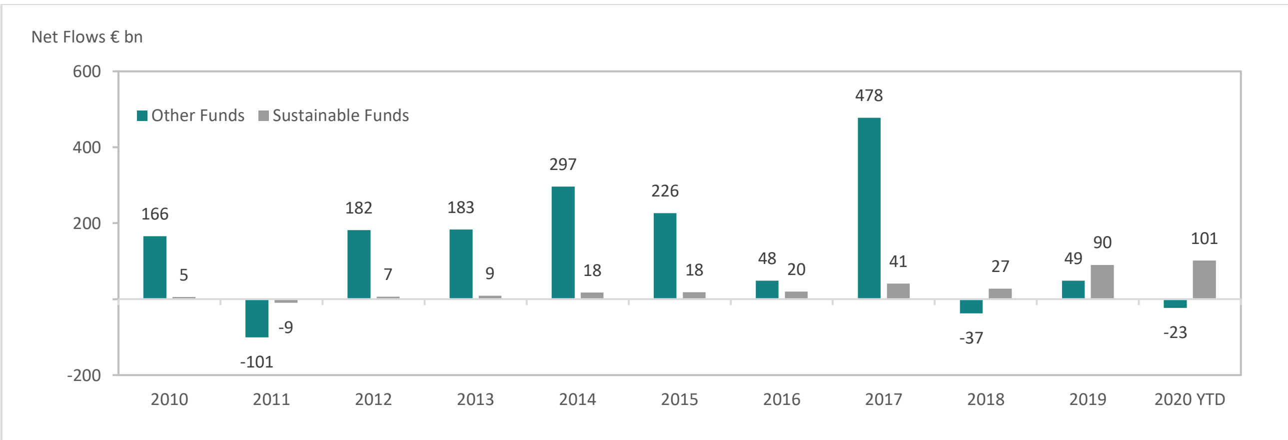

Figure 2: Annual net flows between sustainable and other funds[3]

The increasing popularity of sustainable investing is based on two beliefs. Firstly, sustainable investing helps address the major challenges facing society, such as climate change, income inequality, resource depletion, and now the COVID-19 pandemic. Second, sustainable investing improves long-term financial returns, since environmental, social, and governance ("ESG") factors are financially material.

[1] 'Sustainable investing' is a broad term that means to consider environmental, social and governance (ESG) factors into investment decisions and/ or ownership, in order to achieve long-term returns. It is often used interchangeably with other terms such as responsible and ethical investing (PRI, 2020)
[2] Source: Carmignac, Morningstar data 31st July 2020
[3] Source: Carmignac, Morningstar data 31st July 2020

However, the evidence for both claims is mixed. Despite investors increasingly stating that they take climate risk into account, and leading investors divesting from carbon-emitting industries such as fossil fuels, the rise in carbon dioxide levels has shown no signs of slowing (at least before the pandemic). It may be that divestment is not an effective way to hold companies accountable for their carbon footprint – even if sustainable investors sell "brown" stocks, traditional investors may simply buy them. Moreover, even though sustainable investors are attempting to actively engage with companies to change their carbon footprint, change appears to be slow.

Turning to financial performance, many proponents of sustainable investing claim that there is definitive evidence of outperformance. For example, a *Wall Street Journal* op-ed by Al Gore and David Blood suggested that "voluminous research has shown conclusively that businesses properly integrating ESG factor into their plans are typically more sustainable and profitable", and one of the UK's market leading broker Hargreaves Lansdown declared that "study after study has shown that businesses with sustainable characteristics have outperformed their peers." These claims are often accepted uncritically due to confirmation bias – investors would like to believe that "ethical" companies always perform better. However, this is not the case: systematic evidence shows that the average sustainable fund does not beat the market.

Top 5 Performing Sustainability Funds					Bottom 5 Performing Sustainability Funds				
Fund Name	M* Rating	M* Sustainability	Total 1yr Return (%)	Sustain % rank	Fund Name	M* Rating	M* Sustainability	Total 1yr Return (%)	Sustain % rank
Top Fund 1	-	Below Average	50.40	85	Bottom Fund 1	2	Below Average	-19.12	95
Top Fund 2	-	Average	23.89	29	Bottom Fund 2	3	High	-12.60	4
Top Fund 3	4	Above Average	23.63	7	Bottom Fund 3	2	Above Average	-12.37	22
Top Fund 4	4	Above Average	23.11	7	Bottom Fund 4	-	Below Average	-11.14	59
Top Fund 5	3	Average	22.68	28	Bottom Fund 5	2	Above Average	-7.92	12

Table 1: Top and bottom performing sustainable funds globally based on 1-year return [4]

However, the performance of the *average* sustainable fund masks important differences *between* sustainable funds. Table 1 identifies a small subset of the best and worst performing sustainability funds: it is interesting to note that those that perform best within the 'sustainable funds' universe are not necessarily those that perform best in terms of sustainability. Similarly, the worst performing funds do not always score lowest in sustainability. One key fund characteristic that may determine both its ESG and financial performance is whether the fund is passively or actively managed. To clarify, by 'passively managed' fund, we mean both passive funds, in the typical sense, as well as actively managed funds that follow a basic 'box ticking' approach to ESG integration.

[4] Source: Carmignac, Morningstar data 30th June 2020

For traditional investing, which is predominantly based on financial factors, there are many valid arguments for why passive investing may outperform active investing. For example, computers can assess these financial factors more accurately and objectively than humans, thus explaining the increasing popularity of smart beta funds. However, for sustainable investing, there are many reasons why active management may be the most effective strategy – both for stock selection and for engagement.

This paper will therefore look to understand the limitations of passive approaches to sustainable investing, which may explain these lower returns, as well as to identify the drivers of higher returns as part of an active strategy.

I. Passive approaches to sustainable investing offer the benefit of simplicity and are attractive to investors, but can suffer limitations

The simplest ESG integration is found in passive funds, which simply track a sustainable index. Such funds have seen higher inflows than their market share for assets[5] in the first quarter of 2020, demonstrating their popularity among investors. Passive funds are also typically cheaper than active funds, enabling them to reach a larger investor base. Active funds following a more simplistic approach to ESG integration have also been popular in building out sustainable markets. The process typically involves a reduction of the investment universe using large sector and thematic exclusions in conjunction with screening out companies with low ESG ratings, which typically results in a more standardised product, simpler to understand by investors. Despite this, we view passive sustainable investment approaches to have a number of flaws, namely:

A. ESG rating inconsistency

Passive approaches to sustainable investing rely significantly on ESG ratings. However, ESG ratings are an incomplete measure of a company's true ESG performance, as shown by the substantial inconsistencies in the correlations between ESG ratings across providers. The average correlation among the six largest ESG rating providers is a mere 0.54, compared to a high 0.98 for credit rating agencies (Figure 3).

The reason for this large discrepancy is that a company's ESG performance is inherently subjective. Rating agencies may not agree on whether a particular factor is material – some may include electromagnetic radiation and lobbying activity; others may not. Even if different rating agencies agree that a particular ESG dimension is material, they may disagree on how to measure it. For example, a company's commitment to gender diversity could be measured by the proportion of women on the board, the proportion of women in the workforce or the gender pay gap for example. This contrasts with traditional investing, where there is only one objective way to measure recent stock return performance (for momentum investing) or a price-earnings ratio (for value investing).

[5] Morningstar 2020

As a result, an investor cannot simply take an off-the-shelf measure of ESG performance and use it to form a sustainable portfolio, because there is no unambiguous measure available.

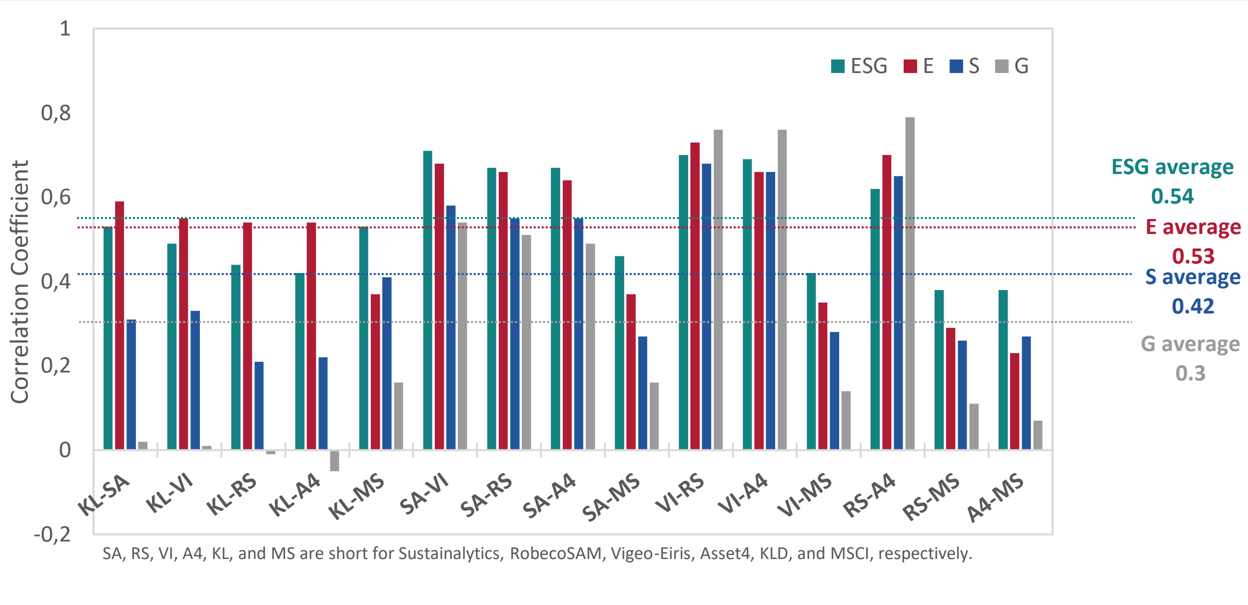

Figure 3: Correlation between ESG ratings from six different ratings providers[6]

A secondary factor is that, as the universe coverage is a large selling point of these rating providers, there is an incentive to have a one-size-fits-all model and to apply it to each company globally. Although a standardised methodology leads to consistency, a side effect of consistency is rigidity. A one-size-fits-all framework does not cater to specific business types, company sizes, geographies, or even industries.

The materiality of ESG factors can depend on circumstances. A family run company with an impeccable management track record would be rated poorly in an ESG framework due to low board independence figures. While board independence is typically beneficial for governance, if management has a substantial financial stake in the firm, there may be few governance issues to begin with.

Rating agencies often need to create a quantitative rating based on subjective data, and so there may be inconsistencies in approaches across analysts. Even where data is objective, a high (or low) score may not be unambiguously desirable, and certainly should not be interpreted in this way without understanding the reasons for the score. For example, low employee turnover is typically seen as beneficial, but it may indicate poor employee training, so other firms do not wish to hire away a company's employees. Moreover, even if the data is objective *and* the direction is unambiguous (for example, low carbon emissions are good), such data is often backward-looking. ESG measures are often extremely lagging indicators of actual behaviour – even more so than financial measures – and data on current carbon emissions may be a poor indicator of the actions a company has taken to reduce its future carbon footprint.

[6] Source: F. Berg, J. Koebel & R. Rigobon – Aggregate Confusion: The Divergence of ESG Ratings, MIT Sloan School Working Paper 5822-19, May 2020

Even for objective information, rating agencies may use the wrong criteria. For example, some may use the CEO-to-worker pay ratio as a measure of pay fairness, even though it is negatively correlated with financial performance. In contrast, evidence suggests that the structure and horizon of CEO pay are superior measures of fairness, and positively correlated with long-term shareholder and stakeholder returns.[7]

Many of the most important dimensions of ESG are intangible and qualitative. For example, a rating agency may measure a company's concern for employees through wage levels, but this measure does not capture meaningful work or skills development. It can obtain data on demographic diversity, but this says little about a company's actions to develop a culture that tolerates a diversity of thinking.

As rating models rely heavily on publicly available and reported information, there is a risk of rewarding large corporations which have the ability and resources to hire personnel to "green the company" by establishing superficial policies and procedures to tick ESG boxes. Alternatively, companies may focus on quantitative measures of ESG at the expense of qualitative factors – e.g. demographic diversity rather than a culture that tolerates and encourages diversity.

We also noticed that this approach favours regions where ESG risk metrics are more reported and standardised like Europe (Figure 4).

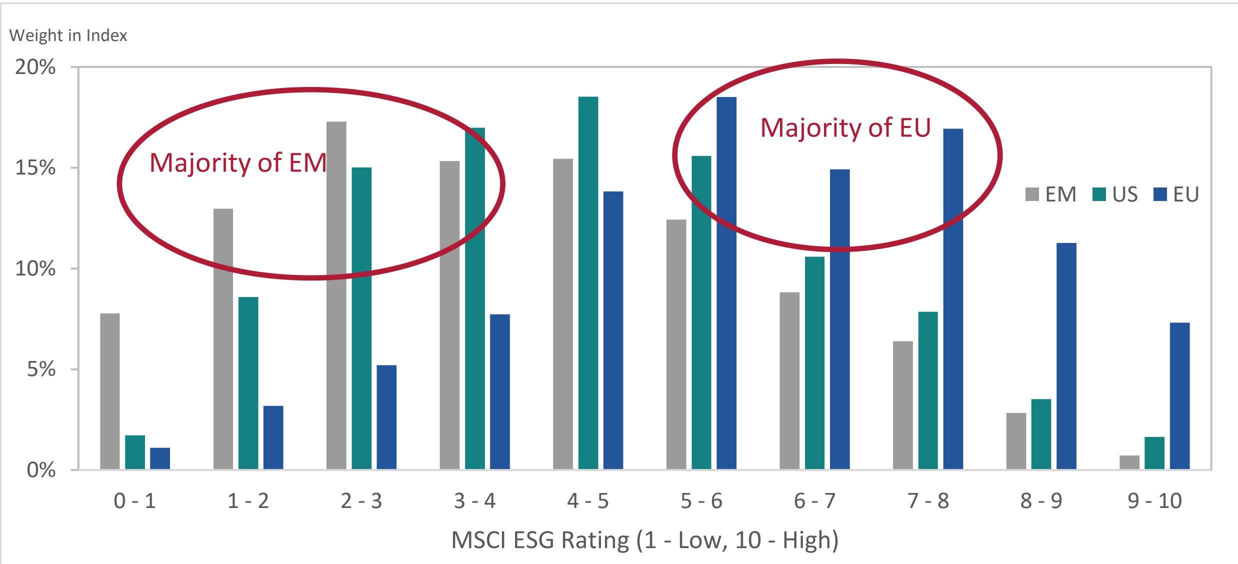

Figure 4: ESG rating distribution by geography[8]

[7] Edmans, Alex (2020): "Grow the Pie: How Great Companies Deliver Both Purpose and Profit." Chapter 5
[8] Source: Carmignac, MSCI ESG Rating using MSCI database as at 31st March 2020

On an industry perspective, two trains of thought exist: standardising company ratings based on industries in which they operate, or not. If ratings are standardised, odd situations occur where highly polluting companies in the energy sector have higher environmental scores – and overall ESG scores – than low polluting companies in the tech sector. On the other hand, if ratings are not standardised, an entire industry can be unfairly reprimanded simply on the nature of their business.

Hence passively building a sustainable portfolio whether through an ETF, smart beta, or even as a box-ticking exercise in an active fund may involve disproportionate risks for investors. As we have demonstrated, 'tricking' the ESG system can be easy. By investing in large capitalisation European companies, operating in 'safe' industries like consumer goods or water utilities, one can easily achieve a portfolio with a higher ESG rating than the benchmark. However, this may entail a portfolio that is risky either from a diversification perspective, but also one that does not capture or understand ESG risks. These types of investments which albeit seem positive on paper from a sustainable investing perspective, may actually not offer any real solutions to global societal issues.

B. Low carbon funds can be misleading

The sustainable investing debate has often been reduced to solely climate change and carbon emissions reduction. A quick read of the World Economic Forum's 2020 Risk report paints a clear picture that climate risks have become a major concern; thus naturally becoming a predominant theme in funds. However, creating a fund whose sole aim is to have a lower carbon footprint than the benchmark could be misleading for investors and will not suffice to reach the objective of limiting temperature rise under 1.5 degrees globally. Looking at the MSCI All Countries World Index (MSCI ACWI), less than 8% of the companies in the index contribute to more than 80% of the carbon dioxide emissions of the entire benchmark, as can be observed in figure 5.

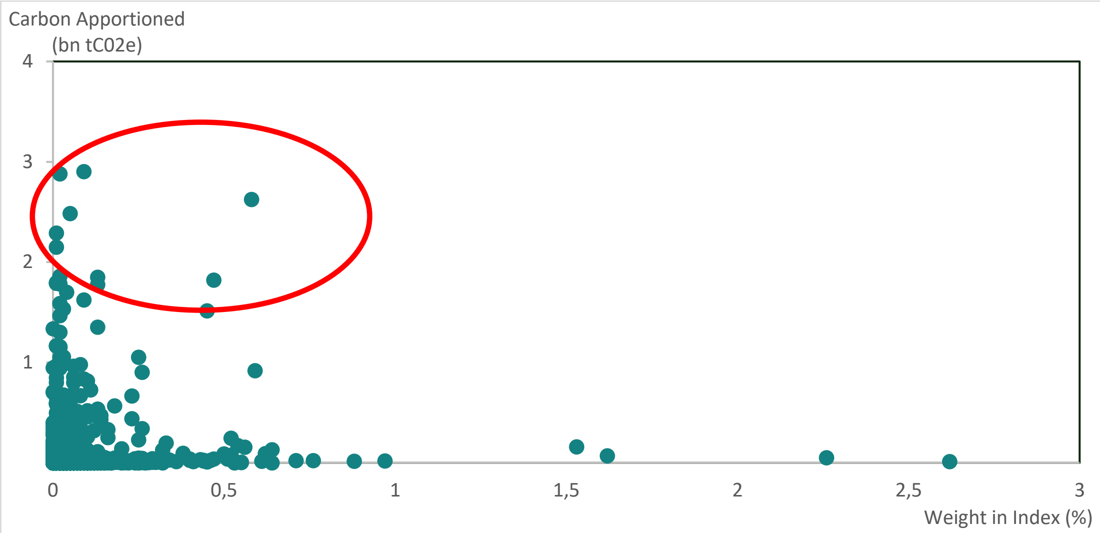

Figure 5: Dispersion of carbon footprint of constituents in MSCI All Country World Index[9]

Passive sustainable investing approaches which only have low carbon emissions targets may be missing opportunities that active funds offer, such as to invest in forward-looking clean technology solutions or to actively engage with companies with high emissions – for example those operating in the materials sectors, where rapid energy transition can really make an impact in reaching the net zero carbon emission targets by 2050. Moreover, academic research shows that firms with higher total carbon emissions (and change in emissions) actually outperform lower carbon emissions firms, even after controlling for other factors that predict returns.[10]

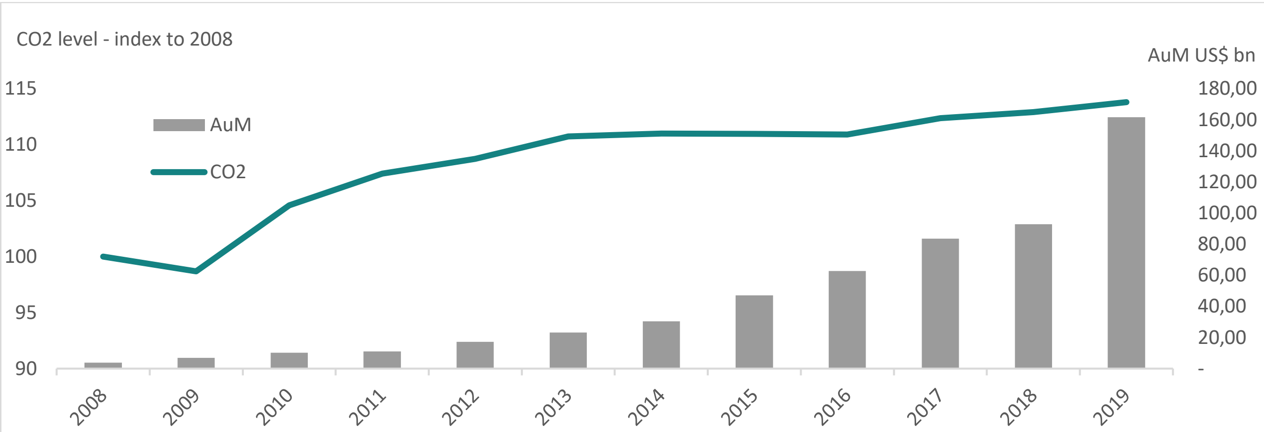

Figure 6: Global CO2 emissions (LHS) and assets under management in passive ESG strategies (RHS) from 2000 to May 2020[11]

A low carbon footprint does not necessarily mean low risks nor low exposure to climate related risks. A footprint is your effect on the environment, whereas risk depends on how the environment affects you.

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[9] Source: Carmignac, Trucost as of 31st May 2020 using MSCI All Country World Index
[10] Bolton, Patrick and Marcin T. Kacperczyk (2020): "Do Investors Care About Carbon Risk?"
[11] Source: Carmignac, CO_2 data from International Energy Agency, https://www.iea.org/statistics/co2emissions/ as at 31st March 2020; AuM data from Morningstar as at 31st May 2020

Similarly, it does not necessarily mean that the company provides solutions to climate mitigation or adaptation. In other words, a low carbon footprint does not categorically mean a cleaner business: it could mean the opposite, or neither. Supply chain management, product mix, energy transition pathway or geographical location to name a few, are all factors which might influence the effective environmental impact of a company's business and should be considered over and above the carbon emissions of a company.

C. Industry exclusions

Large scale exclusions have become the norm in the construction of a sustainable portfolio. These exclusions concern targeted industries, sectors, or revenue thresholds on what has become standardized unethical business activities and services. At Carmignac, we are in favour of running negative screening to meet regulatory requirements or to meet an investor's specific ethical values. However, exclusions in passive approaches imply a very black-or-white decision-making process, without an actual understanding of a company's business or management strategy. It can lead to the avoidance of "best in class" companies, which are operating in controversial industries but moving in a positive direction – and by doing so, raising the bar for its industry competitors (e.g. an alcohol company that is significantly reducing its water consumption and developing low- or zero-alcohol beers). Screening out an industry means that an investor will not consider any company in that industry, whatever its ESG performance, which we believe is counterproductive.

As we have already demonstrated with divergences in ratings, external providers also have very different exclusion screens. Taking exclusions on cluster munitions as an example, one provider will exclude a US aerospace company due to its involvement in cluster munitions because it manufactures jet aircrafts, which can carry those while another provider will not. Another example would be exclusions based on revenue or production thresholds: we have seen companies providing software or maintenance services to government defence projects being excluded although this represented a minute portion of their business. By using revenue passively, one would miss out on the other parts of these companies' businesses, which may in fact add positive impact to the world.

Another exclusion framework relates to exclusions based on norms violations or controversies. As we know, in financial markets violations or controversies are priced in when they occur if they are financially material. Exclusion ex-post is like following the trend and taking a buy-high-sell-low approach, selling at the cost of the clients' money. Given the subjectivity behind these issues, different providers again give different severity assessments of norms-based violations. As suggested by the United Nations supported Principles of Responsible Investment (PRI), sustainable investment does not require ruling out investment in any sector or company but rather including ESG information in investment decision-making, to ensure that all relevant factors are accounted for when assessing risk and return.

Table 2 shows how exclusion lists vary between active asset managers. All in all, this demonstrates the subjectivity of exclusion and the need for additional layers of company analysis.

Company name	Firm 1	Firm 2	Firm 3	Firm 4	Firm 5	Firm 6
AECOM	N	N				
Airbus Group NV	N	N	N			N
BAE Systems PLC	N	N	N		N	N
Dassault	N					
General Dynamics Corp	N	N		C	N	C/N
Honeywell International Inc	N	N	N			N
Leonardo SpA	N	N	N		N	N
Lockheed Martin Corp	N	C/N	N		N	C/N
Northrop Grumman Corp	N	C/N	N	N	N	C/N
Rolls-Royce Holdings PLC		N				N
Textron Inc	N	C	C		C	C/N
Thales SA	N	N				N

Table 2: ESG exclusion lists from six different asset managers and asset owners in Europe referred to as "IM" on the table [12] "C" represents exclusions due to cluster munitions and/or anti-personnel mines; "N" represents involvement in nuclear weapons

D. Crowding effect

If many sustainable funds use the same box-ticking methodology as described above, there is a risk of a crowding effect – with many funds owning the same companies, sectors and geographies.
Research carried out by Goldman Sachs shows that, for the top 50 most widely owned securities from a universe of more than 2,000 sustainable funds globally, the premium has expanded to roughly 40% above the MSCI ACWI, accelerated in the last year or so from 25% premium at the end of 2018, looking at both forward Price to earnings ratio (P/E) or Enterprise Value to Earnings before interest, tax, depreciation and amortization ration (EV/EBITDA).

[12] Source: Carmignac, Alliance Bernstein's publication on ESG: BEYOND RATINGSAND SCORES , data updated as of 30th June 2020

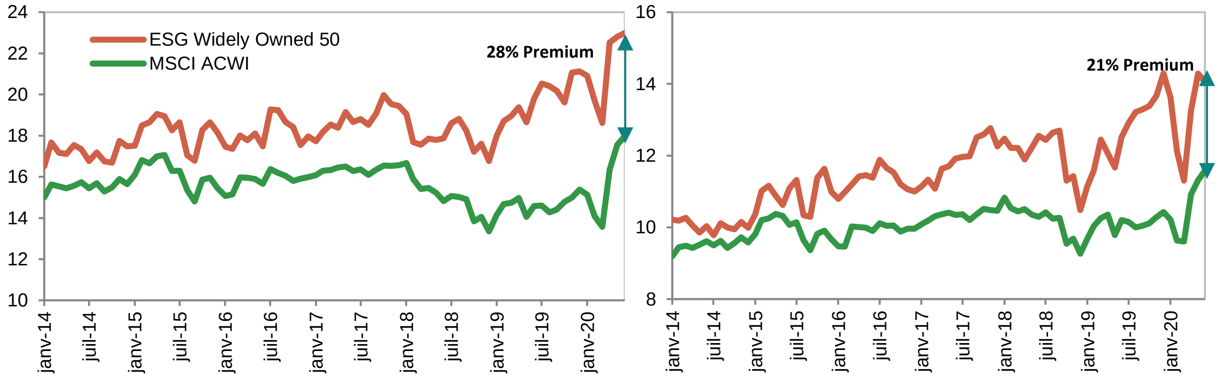

Figure 7: P/E and EV/EBITDA dispersion between the top 50 most widely owned companies across more than 2,000 sustainable funds vs. MSCI All Countries World Index[13]

This is worrying as it demonstrates, as described in points I and II, that the asset allocation is severely biased. Due to the limitations of ESG ratings, most funds are significantly overexposed to Western Europe where higher company scores for ESG exist and where investors and regulators have created demand. The same applies to market capitalisation, where portfolios tend to be tilted towards larger companies which have better disclosure without necessarily having a stronger management of ESG related risks. Finally, there has also been an overallocation to certain sectors like water utilities or airlines, while sectors like tobacco or pharmaceuticals have been underweighted.

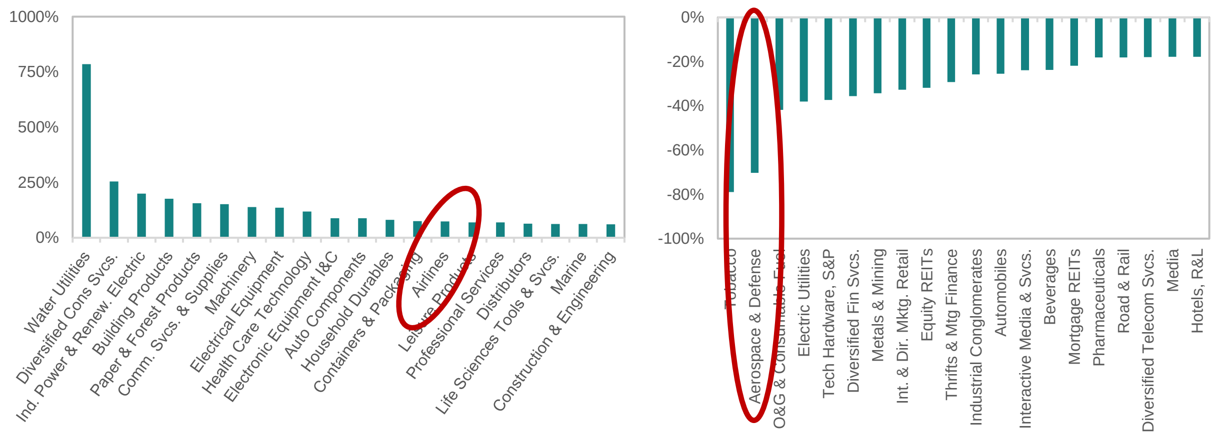

Figure 8: LHS chart: Industries with high impact potential are among the most overweight by sustainable funds; RHS chart: Heavy emitters and "sin-stock" industries make up a significant amount of top relative underweights by sustainable funds[14]

[13] Source: Carmignac, Goldman Sachs Revisiting Nifty Fifty Research, data as of 30th June 2020
[14] Source: Carmignac, Goldman Sachs Revisiting Nifty Fifty Research, data as of 30th June 2020

II. Active approaches to sustainable investing offer dynamic allocation and diversification while seeking to have a real impact on the world

While passive management offers a more simplistic product to investors, we believe that active fund managers can find value in the complexities of ESG, to offer a better risk/reward ratio to long-term investors. Given the high levels of data intricacy, nuances and diversity of companies and variation in product mix, active managers can dig deeper into each company to better understand the material externalities which may impact their financial performance over the long run. It is even more important to take an active approach to sustainable investing because every company is different, and a passive one-size-fits-all approach would not work. There are four elements to an active approach that managers can take, while still delivering a strong sustainable investment mandate:

A. Active ESG research system

As mentioned previously, ESG ratings can be unreliable and may only reflect part of how a company is managing its ESG risks. Active managers should be asking themselves what are the non-financial factors that will materially impact the financial valuation of the company. They should also dig deeper by speaking to the senior management of the company, to understand the context behind the numbers or to investigate other ESG-related actions that the company may be taking (or failing to take), which are not yet captured in the numbers. In other words, we believe it is the duty of active manager to identify and understand the relevant factors, whether financial or non-financial before allocating any capital.

Figure 9: Stakeholders of a typical company [15]

[15] Source: Carmignac

At Carmignac, we believe that narrowing down these complex issues to one single overarching metric may be misleading. We take a stakeholder approach whereby we consider how the business engages with each stakeholder group (see Figure 9) to determine good business quality combined with good management quality. The Sustainability Accounting Standards Board (SASB) has been instrumental in setting up a framework as a starting point to understand the types of specific risks that different industries are susceptible to.

B. Active approach to exclusion

As an active manager, we view exclusions to have limited utility when used simplistically. When it comes to compiling an exclusion list, we do not limit ourselves to solely screening out companies based on their industry or arbitrary revenue and production thresholds; we can add additional layers of analysis that gives us a more forward-looking approach. For example, with an energy company that uses coal, an investor must understand its transition path and strategy of exiting from coal. As was previously discussed, excluding companies based on what types of business they operate in can be very subjective and we therefore believe that this responsibility should not be left to external agencies. By doing a deep dive into each company found in external lists, either through research or direct communications with the company, managers maintain a better understanding of their investment universe. As such, they are able to distance themselves from following exclusion trends and to confidently create an exclusion list of firms that violate regulation, ethical beliefs or global norms.

C. Active approach to thematic investing

Following a survey carried out by Eurosif in 2018, thematic investing is one of the most growing strategies. To further differentiate from passive approaches, active managers have the ability to select investments that provide solutions to themes across the full value chain. An example of this could be green mobility. It is very easy to invest in a purely electric car maker, but if there are issues with this company, there may be liquidity constraints to sell this position, resulting in selling at a great discount to get out of the position which could create permanent capital lost for clients. In fact, the role of an active manager is not to follow the crowd, but to understand on a deeper level who the players are across the value chain, from chip makers to software providers, battery components or raw material requirements. An active manager can identify companies that may be overlooked although they have a tangible strategic plan, efficient capital allocation and long-term human capital management – all imperatives for long-term development.

Increasing Level of ESG Integration

	Exclusions	Norms-based Screening	Integration	Engagement	Best in Class	Thematic	Impact
AuM Proportion	**€9.5 Trillion** (42.0%)	**€3.1 Trillion** (14.0%)	**€4.2 Trillion** (18.8%)	**€4.9 Trillion** (21.5%)	**€0.6 Trillion** (2.6%)	**€0.1 Trillion** (0.7%)	**€0.1 Trillion** (0.5%)
8 Year CAGR	+23.5%	+16%	N/A	+14%	+20%	+25%	N/A
2 Year CAGR	-3%	-21%	+27%	+7%	+9%	+1%	+5%

Trend of AuM

Figure 10: Variation in sustainable investing approach and levels of ESG integration[16]

D. Active stewardship

Lastly, one key component of an active approach to sustainable investing is the ability to drive change via a strategic long-term approach, which requires relationship building and a thorough understanding of the company and sector. There is large-scale evidence that active engagement with companies not only improves long-term shareholder returns, but also stakeholder value.[17]

Nevertheless, it must be acknowledged that many passive investors take engagement seriously, and evidence shows that such engagement has sometimes paid off. However, passive investors are particularly well-placed for "top-down" engagement, which can be applied across all firms in a "one-size-fits-all" basis without understanding the strategic context. For example, they have been successful in removing takeover defences and ensuring more equal voting rights – actions which can be pursued without needing to know the company's unique business model.[18]

However, active investors are especially suited to "bottom-up" engagement, which requires a deep analysis of a company's specific challenges and opportunities. This is because they have much more concentrated portfolios, which gives them an incentive to get into the details of each stock that they own. For example, in their "bottom-up" engagement, active investors might uncover poor working practices not only in the company but throughout its supply chain, and thus seek to pressure management into improving them.

[16] Source: Carmignac; Eurosif SRI Study 2018, 30th November 2018
[17] Edmans, Alex (2020): "Grow the Pie: How Great Companies Deliver Both Purpose and Profit." Chapter 6
[18] Appel, Ian R., Todd A. Gormley and Donald B. Keim (2016): "Passive Investors, Not Passive Owners." *Journal of Financial Economics* 121, 111-141.

Conclusion

The world of sustainable investing has seen significant growth in recent years, with a multitude of different approaches to integrating ESG into the investment process. Passive ESG approaches have so far been a significant driving force behind growth in sustainable investment markets. However, this paper has identified a number of shortfalls which may reduce a fund's effectiveness in achieving long-term sustainability namely: ESG rating inconsistencies, an overreliance on carbon-related data, over-simplification linked to exclusions, and the crowding of investments into popular ESG darlings. Active managers leading best practices can be used to overcome many of these limitations and increase the effectiveness of sustainable investment in solving global issues. Sustainability issues are complex, and we contend that an active approach which includes thorough ESG research, an active exclusion approach, thematic investing and stewardship is best placed to enable a prosperous sustainable transition.

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