

# U.S. Environmental, Social, and Governance Investing 2020

*Shifting Environmental and Social Systems Push Asset Managers to Get More Responsible*

## OVERVIEW & METHODOLOGY

This report is the third Cerulli report dedicated to the topic of environmental, social, and corporate governance (ESG) investing in the U.S. It defines what constitutes an ESG investing framework and analyzes the various ways that asset managers and asset owners are incorporating ESG into their investment decision-making from both a product and process standpoint. The report not only assesses the true demand for ESG strategies among both client types, but also assesses which elements of ESG matter most to institutional and retail investors.

Additionally, it covers how ESG considerations are becoming a more important component of the manager selection process for all managers, not just those offering sustainable and impact products. Lastly, the report looks at the kinds of vehicles and channels that asset managers believe offer the biggest opportunities for adoption and explores ESG and impact reporting methods, frameworks, and tools used—as well as the availability and quality of ESG data that underpins these reports.

## USE THIS REPORT TO

- Analyze the state of the U.S. ESG market, including methods of responsible investing and detailed market sizing
- Explore how asset managers are enhancing their core processes and product lineups to manage ESG risks, align their values, and enhance returns
- Review ESG and impact reporting methods, frameworks, and tools used, as well as the availability and quality of ESG data that underpins these reports
- Gain insight into asset managers' product development, ESG integration, and active ownership activities
- Evaluate the ESG product landscape and implications that the state of affairs has for asset managers

## QUESTIONS ANSWERED

- How are allocators using an ESG lens to evaluate asset managers?
- What ESG issues are asset owners and asset managers prioritizing?
- How are asset managers and asset owners incorporating ESG criteria into their investment decisions and what are the key motivations?
- How has the ESG product landscape evolved, and which types of ESG-focused products are gaining flows?
- What is the true demand for responsible investing among retail and institutional investors?

## PRODUCT DETAILS

### Included with Purchase

- Digital report in PDF format
- Unlimited online firm-wide access
- Exhibits in Excel
- Key findings
- Analyst support
- Interactive Report Dashboards

### Interactive Report Dashboards

*Interact and explore select report data with Cerulli's visualization tool.*

- **Asset Managers' vs. Asset Owners' Perspectives:** Compare responses from asset managers asset owners on topics including methods for considering ESG issues, approaches to active ownership, criteria for exclusionary screening, themes of impact investments, and factors driving their decision to start using ESG criteria in their investment analysis.
- **Generational Demand Comparison:** Evaluate asset managers' and financial advisors' anticipated demand for ESG strategies against retail investors' preferences for positive ESG themes segmented by generation.
- **ESG Theme Comparison:** Analyze asset managers' top-20 ESG themes for active ownership activities, those incorporated into the ESG integration process, and those addressed for product development, grouped by ESG category.
- **Investment Consultant ESG Manager Evaluation Comparison:** Review the top-10 investment consultants' approaches to evaluating asset managers on ESG, including ESG rating/ranking/score format, asset classes rated/evaluated, and transparency of rating.
- **ESG Assets and User Projections:** Measure Cerulli's historical and projected ESG assets by asset type against customizable user growth rates.



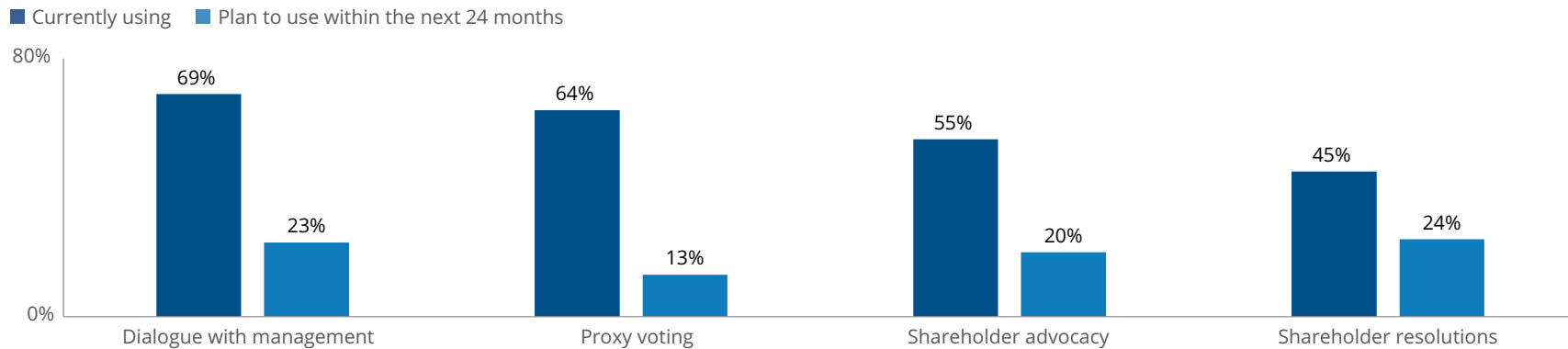
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**Exhibit 6.08****Asset Owners: Active Ownership Approaches, 2020**

Source: Cerulli Associates

Analyst Note: n = 137 (respondents doing active ownership).



- More than three-quarters (69%) of asset owners are having dialogue with underlying portfolio companies on ESG-related considerations.
- Close to three-quarters (64%) of institutions polled say that they are voting proxies on ESG issues.
- Nearly half (45%) of organizations are participating in shareholder resolutions.

**Key Implication:** Active ownership refers to the practice of having a dialogue with companies on ESG issues and exercising both ownership rights and voice to promote change. Active ownership can be expressed through voting activities (e.g., proxy voting), dialogue with management, shareholder engagement, and shareholder resolutions. These activities can be conducted individually or jointly with other investors, industry organizations, and coalitions. Asset owners often request that their asset managers share transparency into underlying portfolio companies' exposure to certain ESG-related issues or share ties to offenders of a particular issue. For instance, in a recent Op-Ed in *ai-CIO*, David Holmgren, CIO of Hartford HealthCare describes how he fights discrimination and explains, "Our intensive due diligence process involves personal assessments of an asset manager's character, so I'm routinely looking at qualitative ways of filtering out potential bad actors, which, remember, is also headline risk exposure." Asset owners are also active participants in collaborative engagement efforts, working closely with nonprofit organizations, such as Ceres and Interfaith Center on Corporate Responsibility, that use shareholder engagement to press companies for change on ESG issues. Asset owners also join coalitions made up of institutional investors, asset managers, advocacy groups and government officials working together to tackle various ESG challenges. For instance, the Thirty Percent Coalition's members collaborate to increase gender diversity in senior leadership and the corporate boardroom. Asset owner members include Mercy Investments, the Nathan Cummings Foundation, and the Philadelphia Board of Pensions and Retirement, to name a few.

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