

The 'E' word again January 2016



I was at a workshop today at which four asset managers were discussing their approach to ESG integration. There was a specialist 'SRI' manager; a specialist sustainability manager; and two 'mainstream' managers. After their introductory remarks, the moderator asked them what part, if any, ethics played in their approach to ESG.

The SRI manager went first, and talked about international conventions, the OECD Guidelines, etc. All good stuff. The sustainability manager talked about sustainability. All fine too.

Then it was the turn of the mainstream managers. The first described how any talk of ethics was anathema to their portfolio managers and that any suspicion on their part that anything resembling ethics was involved in ESG would undermine ESG integration. At the same time, she acknowledged, many issues do indeed have underlying ethical dimensions. OK, we know the arguments.

The second mainstream manager also argued that explicit mention of ethics was not a recipe for making friends and influencing people among portfolio managers. So far, so familiar. But then he went on to say something really interesting.

In one-to-one conversations with portfolio managers, he finds that they do indeed care about environmental and social issues, and that they are (sometimes) willing, and able, to find ways to reflect those values in their work.

This is a very important insight - and one that is strongly consistent with my own experience and with conversations I have had with many people. PMs are human beings with values. Like most of us, they feel uncomfortable if they know they are doing things that are inconsistent with their values. The system in which they find themselves tells them - sometimes explicitly, and certainly implicitly - that they are not allowed to take account of 'ethical issues'. Yet when the conditions are right - in a supportive conversation with a sensitive ESG colleague - a path can be found to behaviours and decisions that are more aligned with their personal values, and which do not prejudice investment returns or breach fiduciary obligations.

This is the ESG challenge. How can we create more conditions, more of the time, that are conducive to enabling people managing money to reflect their values in their investment decisions? What are the characteristics of an organisational culture that will foster this? What behaviours and practices

by ESG people should be encouraged? How can we enable ESG - as it were - to emerge from within what is already happening, rather than forcing it in ('integrating' it) from outside?

Rob Lake

rob.lake@roblakeadvisors.co.uk