Riding the ESG Wave: Wealth Management Industry Catching Up with Global Trend

"When the last tree has died, the last fish has been caught, and the last river poisoned, only then we will realise that we cannot eat money." This apparently is a Native American saying, which MSCI's Valentin Laiseca highlighted when giving his talk on Environment, Social & Governance (ESG) investing at the Hubbis Asian Wealth Management Forum. He is Head of ASEAN Index Sales and told the audience how MSCI provides ESG Ratings and how the firm then analyses ESG fund manager scores with its Fund Ratings products. He explained how fund managers and other investors can implement ESG in their investment processes, and even how ESG can be incorporated into structured products.

LAISECA BEGAN BY EXPLAINING THAT ESG is creating a major wave in the market currently. Institutions and individuals, especially millennials, are highly focused on ESG nowadays and this is a trend MSCI sees expanding in the wealth management space. Accordingly, as interest rises, MSCI has positioned itself to provide research and analytical tools for assessing the ESG risks of funds and portfolios, as well as investable ESG indices.

ESG in the spotlight

"You can see from leading financial newspapers such as the Financial Times how much greater focus there is today on the whole area of ESG Investing" Laiseca observed. "When we talk about ESG investing the definition to me is relatively simple - it is about incorporating environmental, social, and governance considerations in the investment process."

For more than 40 years, MSCI's research-based indexes and analytics have helped the world's leading investors build

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and manage their portfolios. MSCI focuses on four areas of research, namely index, analytics, real estate and ESG is the fourth area, which is developing very fast indeed.

MSCI ESG Research products and services are designed to provide in-depth research, ratings and analysis of environmental, social and governance-related business practices to companies worldwide. ESG ratings, data and analysis from MSCI ESG Research are also used in the construction of the MSCI ESG Indexes.

Financially relevant

There is a growing body of research to indicate that ESG factors are correlated with higher company valuations and profitability. That is because there are ever more fund managers and the providers of those funds who are ever less tolerant of corporate ESG failures.

"Society is less tolerant," Laiseca commented. "Shareholders are less tolerant. The regulators are less tolerant. And you can see how an ESG incident immediately provokes what can be a huge drop in the stock price of the company involved. All this results in what we see as growing evidence that suggests that ESG factors are correlated with higher company valuations and profitability and lower risk."

Signing up, asking the questions

The United Nations Principles for Responsible Investing has grown to over 1,900 signatories representing almost USD82 trillion in AUM, up from USD10 trillion in 2006. There are several trends underpinning this growth. There is more scrutiny and understanding that emerging ESG risk factors may impact performance and what was previously unmeasurable can now be measured and rated. There is more ESG data and more accurate assessment of ESG performance is possible.

"In recent years there has been significantly more engagement from institutional investors for integrating ESG in their investment process and the wealth management industry is now following," he continued. "We see that 67% of Millennials believe investments are a way to express social, political, and environmental value, compared with only 36% of baby boomers, according to research from Accenture. Moreover, some 90% of millennials want to grow their allocations to responsible investments in the next five years as wealth transfer of some USD30 trillion takes place from baby boomers to 90 million millennials over the next few decades."

"Wealth holders are today asking different questions," he reported. "They ask how they can better align investments with their values. They question whether ESG can improve their long-term returns while managing risk. They worry about climate change and want to try to reduce risks there."

MSCI setting the standards

Laiseca reported that MSCI's flagship ESG rating research product, MSCI ESG Ratings, is fast becoming the standard for ESG ratings globally, much like the major brand name credit ratings agencies are the standard for rating borrowers and their obligations.

And the firm has ESG Fund Ratings that looks at managers based on the ESG qualities of their portfolio. "This product provides ESG transparency for more than 32,000 equity, fixed income and ETFs globally," he explained. "And we can then see which are the ESG leaders, which are defined by having a higher exposure to the best-in-class ESG companies we analyse."

In addition, banks can use MSCI ESG indexes as the basis of Structure Products. "Our ESG indexes offer different risk and return profiles and clients can use the one they find more suitable". In particular the ESG LEADERS, our flagship ESG index, has shown good outperformance relative to its market cap equivalent in Asia and Emerging Markets in particular. We have already had a Structure Product issuance with a local bank using this index, which was a great success.

Laiseca closed his talk by referring to the Native American saying: "Only when the last tree has died, when the last river has been poisoned and the last fish has been caught, only then we'll realise that we cannot eat money." With that, he reiterated MSCI's commitment to this fascinating growth area of the global financial markets. ■