

Responsible investment adds to research intensity



Roger Wilkinson

Head of Equity and RI Research, EMEA

We believe RI research brings a different perspective and is therefore an important addition to the overall research insight for all our strategies, not just specialist RI strategies.

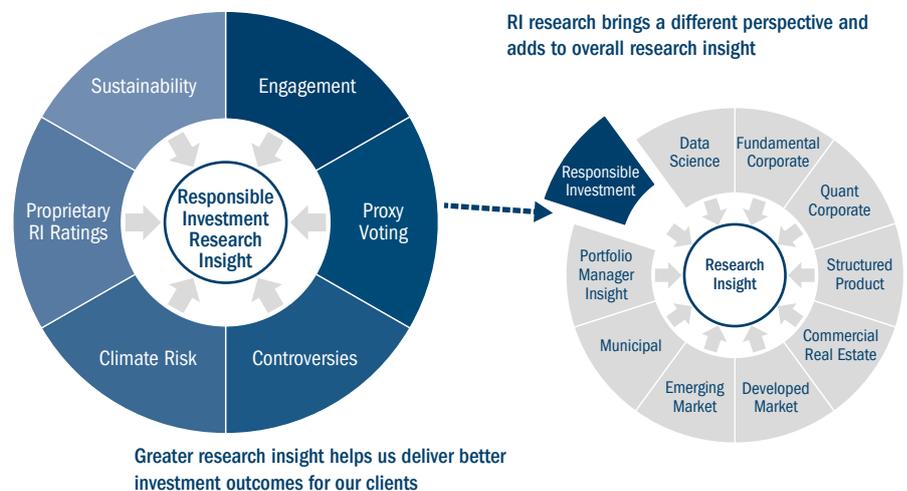
The importance of RI as a research input

Customer behaviour and buying habits are increasingly influenced by environmental, social and governance (ESG) factors and interest in mitigating the environmental impacts of the products and services consumed seems to have increased particularly through the coronavirus pandemic

which has served to highlight the fragility of the ecosystem in which we exist. We are also seeing a growing influence of the “S” in ESG, with social aspects gaining higher attention. Recent examples include top brands suspending social media advertising spending on Facebook in protest of its perceived poor controls over hate messaging; while media allegations of worker exploitation at suppliers to UK retailer Boohoo.com led to customer boycotts and suspensions of the brand by other retail platforms such as Next, Zalando and Asos, highlighting that social aspects can have very real financial implications for companies in terms of loss of sales.⁵⁰

At Columbia Threadneedle Investments we believe in Research Intensity, combining views from all parts of the firm to increase our research insights. We achieve this through close collaboration between our equities, credit and data science teams, as well as regional fund managers and our Responsible Investment (RI) team. Greater research insight means we are better informed and helps us deliver better investment outcomes for our clients (Figure 8).

Figure 8: Research insight process



Source: Columbia Threadneedle Investments, August 2020.

Additionally we are seeing significant flows towards RI-aware investment processes, clearly demonstrating the increasing importance of related factors in investment decision making and a reflection of the evolving desires of asset owners. ESG-focused strategies have come through the stress tests posed by Covid-19, scoring positively on flows and investment performance, with ESG fund flows year-to-date up 3% versus broadly flat flows for non-ESG funds.⁵¹

Businesses, too, are responding with more and more setting their own ESG targets. BP, Shell and Total announced in quick succession that they intend to be net zero businesses by 2050. While important caveats remain, this has arguably created competition within the industry on future emissions reduction and energy transition plans. A growing number of companies are taking it one step further and incorporating ESG targets within their long-term incentive performance pay, with Vodafone one such example. However, even companies without their own targets are being impacted as many are part of a supply chain and so impact the targets of other companies. This will

be a bigger issue going forward with the impact they have on their customers' targets being a decision factor in whether or not they win a contract.

Government policy, regulation and tax are ever more linked to environmental goals. There was some question over whether a Covid-induced recession would mute policy focus on environmental goals, but we have actually seen an acceleration of existing trends, albeit divergence in efforts across regions still persists. In the EU tackling climate change is at the heart of the economic recovery, while in China the response is mixed and in the US it is more divergent between state and federal level. However, if we were to see a new US president voted in later this year then things could change dramatically, as Joe Biden's policies are much more environmentally focused. Whatever happens at the polls though, going forward we believe, that taxes related to greenhouse gas emissions are only going to increase, as this both raises money and is popular with voters. Again this highlights a real and increasing cost to companies that we must try to forecast.

RI integration and the importance of specialisms within the research team

While many investment houses are trying to integrate RI into their investment process, few if any have fully succeeded due to the challenges this poses. At the core of the problem is that, historically, RI specialists were generally not trained as investors, while investors themselves do not typically have an RI background. We believe asset managers need to focus prominently on collaboration, making sure RI research is investment focused.

Collaboration has always been one of the core values at Columbia Threadneedle so we start from a strong foundation. Additionally, we identified three core specialisms: RI research, RI policy and RI stewardship. The entire team sits within our Research division with RI researchers embedded in the central research team (their focus being on conventional investment analysis). This ensures the RI research output is investment focused and further promotes collaboration and integration.

Finally, we organised our specialism by cross-sector themes based on the UN Sustainable Development Goals (SDGs). These goals are well established and have become the benchmarks used for setting and

measuring policy in many countries, and have also been widely adopted by corporates for reporting and goal setting. It therefore made sense for us to align our research focus where possible with them. However, the

SDGs were originally set with the purpose of addressing global challenges, not with an investible outcome in mind. We therefore investigated the 17 goals and identified eight of these as underpins for broader but closely related sustainable themes that could have an investible outcome (Figure 9). These then became the basis for our sustainable thematic research proposition and the specialisms our researchers have adopted. In this way our thematic research is by definition investment relevant for all strategies and, through alignment to the UN SDGs, provides solutions for our specialised RI strategies that align with sustainability themes which we believe will shape the future economy.

We believe this approach, and our established culture of collaboration and focus on research intensity, will in turn lead to better investment outcomes for our clients.

Source:

- 50 Metro newspaper, July 2020. <https://metro.co.uk/2020/07/07/asos-next-zalando-drop-boohoo-amid-modern-slavery-allegations-12958913/>
- 51 JP Morgan, "ESG adoption continues, with flows and performance resilient amid COVID-19", 30 June 2020.

Figure 9: Columbia Threadneedle sustainability themes



Source: Columbia Threadneedle Investments, August 2020.

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COLUMBIATHREADNEEDLE.COM

EMEA.Stewardship@columbiathreadneedle.com

US.Stewardship@columbiathreadneedle.com

RI.Thematic@columbiathreadneedle.com



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