

Corner Office Views



CERULLI
ASSOCIATES

Research | Analytics | Consulting



Corner Office Views

Timely Insights to Inform
your Business Strategy

Lead with knowledge and perspective.
Connect with secular trends impacting financial
services, interpret what they mean for your business,
and drive new opportunities. Cerulli's Corner Office
Views provides market-leading insights and tangible
takeaways for senior executives seeking to strengthen
and scale their business models.

About the Author



Michele Giuditta, CFA
Associate Director, Institutional

Michele is a director of the Institutional practice and leads research for annual reports and strategic consulting engagements. She specializes in environmental, social, and governance investing and outsourced CIO research.

Prior to joining Cerulli Associates, Michele worked at Cambridge Associates as an Associate Director in the Client Relationship Management Group. Additionally, she worked at Manulife Asset Management in the Institutional Investment Sales & Services Group, and held roles in Product Management and Client Relationship Management. She began her career as an analyst in the Investment Policy & Research Group at John Hancock.

Education

University of Massachusetts at Amherst
Bachelor of Business Administration

Boston College
Master of Science in Finance

CFA charterholder and member of the CFA society Boston

Areas of expertise

- Environmental, social, and governance investing
- The outsourced CIO industry
- Investment consultants
- Alternative investments

Recent project work:

- Conducted in-depth interviews with senior leaders at U.S. institutions to learn about their experience working with an outsourced chief investment officer (OCIO) provider and wrote a white paper highlighting the key findings
- Competitive fee analysis and evaluation of dedicated OCIO providers targeting small to mid-sized nonprofit institutions
- Product and distribution strategy for asset manager targeting OCIO providers and multi-family offices (MFOs)



How Do U.S. Allocators Use an ESG Lens to Evaluate Asset Managers?

Today, nearly all U.S. allocators—institutional investors, investment consultants, OCIOs—have standardized questions on ESG that they ask managers during their review process.

Key Implications

- Asset owners place top importance on asset managers having an articulated mission and culture in which diversity and inclusion is central.
- Engagement activities and proxy voting records are also evaluated as part of the due diligence process.
- More than half (57%) of asset owners are using the support of an investment advisor/consultant (40%) or OCIO (17%) to support them with responsible investing, up from 37% in 2019.

ESG Criteria of U.S. Asset Owners

Asset managers advertising their ESG capabilities need to display consistency and commitment at the firm level. This includes the overall attitude regarding ESG from senior leadership. In addition to showing how the firm incorporates ESG criteria, asset managers need to provide transparency into active ownership activities, including proxy voting, engagement, and resolution activities, to show alignment with the firm's stated beliefs and views.

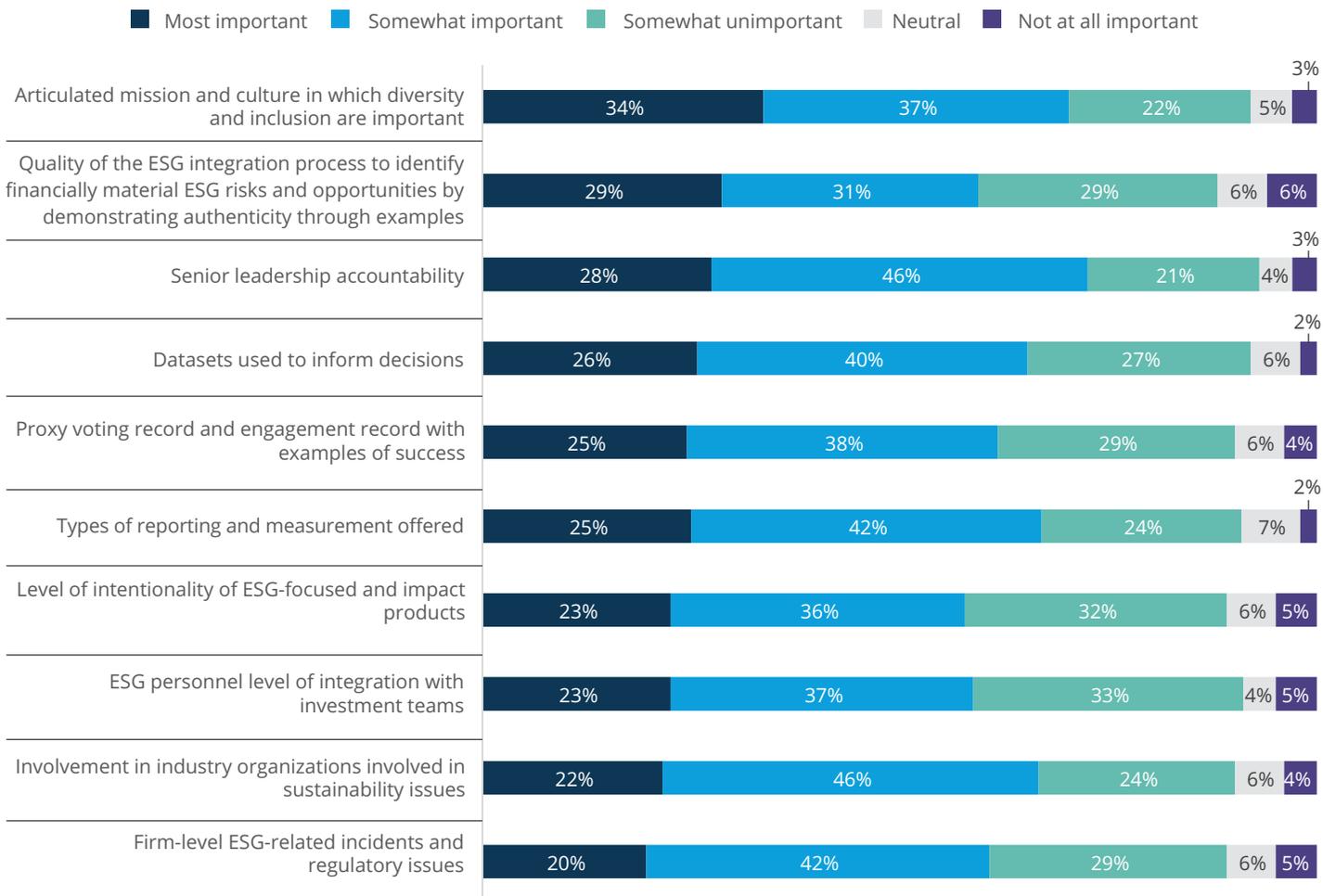
Asset owners place top importance on asset managers having an articulated mission and culture in which diversity and inclusion is central, with more than one-third (34%) ranking it as one of the most important criteria used to evaluate managers on ESG. Another 37% say that it is somewhat important. Allocators are digging deeper into asset managers' diversity and inclusion policies and practices and collecting metrics around racial, ethnic, and gender diversity make-up at firms, particularly among senior leadership roles. Many organizations are requesting numbers and transparency into current state and desired future state to be able to track progress.

Pay equity, profit sharing, and equity ownership are also being evaluated. Asset owners and third-party advisors also evaluate recruitment practices, mentorship programs, and parental leave policies. These stakeholders look at these metrics across all product types. For example, in August 2020, the Alternative Investment Management Association (AIMA) and Albourne Partners Limited, a hedge fund consultant, announced that it developed a free diversity and inclusion (D&I) questionnaire available for all alternative investment managers to increase transparency within the alternatives industry around D&I.

Senior leadership accountability and the overall attitude about ESG from the top also matters. Nearly three-quarters (74%) rate this criterion as at least somewhat important. Allocators will look at how management views ESG and the level of importance they place on it. For example, some allocators are asking asset managers if they are compensating investment professionals on how well they are applying ESG considerations.

Asset Owners: Key Criteria Used to Evaluate Asset Managers on ESG Considerations, 2020

Source: Cerulli Associates | Analyst Note: n = 200 (all respondents)



Asset Owners' Policies on ESG Integration

Exactly two-thirds of asset owners state that they have an ESG integration process and consider ESG factors when making investments and/or selecting investment managers. More than half (56%) of organizations ask their asset manager about their ESG integration approach, but it is not a requirement, and 43% require investment managers to have a clearly documented approach to either receive a top rating or be included in the consideration set. A higher-than-average percentage of endowments (63%), insurance companies (50%), and other nonprofits (45%) polled want managers to have a clearly documented integration approach. Moreover, more than one-third (39%) of asset owners score investment managers based on their ESG integration approach (data not shown).

Allocators also look closely at how ESG data is gathered and which data sources and metrics managers are using to inform decisions. More than one-quarter (26%) of asset owners rank datasets used as one of the most important considerations. Among the greatest challenges to successfully identifying ESG risks and opportunities is ESG data limitations, mainly the quality and consistency of data. There is no universally accepted standard or requirement for corporate reporting on ESG information. As a result, virtually all asset managers are gathering ESG information about companies through methods other than annual 10-K financial reports, with many subscribing to third-party data providers to purchase raw metrics and/or scores and others using proprietary methods. Asset managers that can gather quality data to evaluate what companies do and how they behave will have a competitive advantage to identify risks and opportunities.

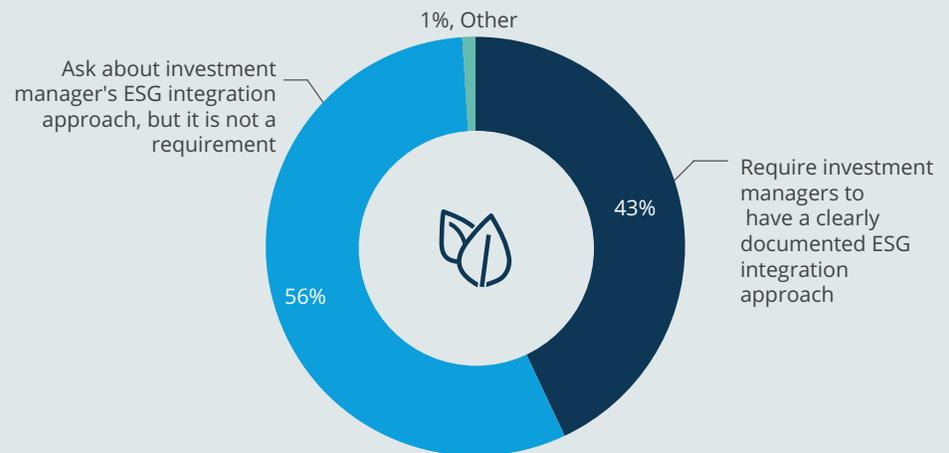
Engagement activities and proxy voting records are also evaluated as part of the due diligence process, with 25% of asset owners citing transparency into asset managers' active ownership activities as a top factor for being included in the consideration set. Topics that are priorities for ESG incorporation practices often overlap or coincide with engagement activities. Communication with management is a fundamental part of active ownership and it is not uncommon for asset managers to raise concerns with companies prior to voting proxies against management. A dialogue between investors and a company's leadership gives asset managers the ability to explain the specific ESG risks and opportunities and encourage action to preserve or improve the company's performance. Allocators want to see examples and a record of engagement activities and how asset managers have pressed for change and been successful. This also includes a review of participation in collaborative engagement with industry trade organizations. In addition, they inquire about partnerships with industry organizations.

Allocators want to see asset managers joining forces to share ideas, help improve the quality of data, and support analysts and the industry to better able to understand the value of ESG data.

Types of reporting and measurement offered is also a criterion, with two-thirds of asset owners citing this as at least somewhat important. This can include reporting on security-level ESG scores, thematic metrics (e.g., board diversity), greenhouse gas emissions, and climate risk exposure. For those managers offering impact product, impact reporting and measurement is required. Asset owners also want to see voting and engagement records.

Asset Owners: Organization's Policy on ESG Integration, 2020

Source: Cerulli Associates | Analyst Note: n = 142. Data includes only those respondents with a policy on ESG integration.



Responsible Investing Support Offered by Consultants

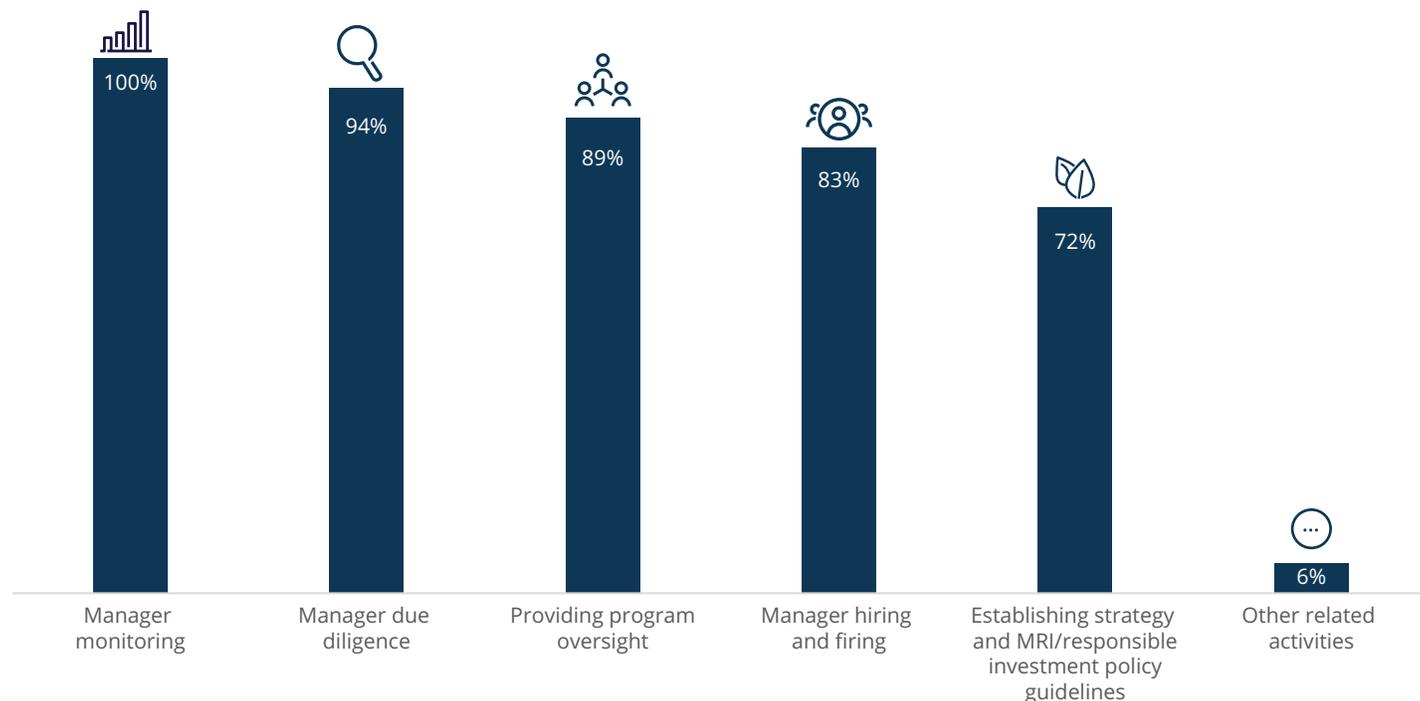
As more and more investors accept ESG as a core investment belief, consultants are expanding their capabilities to offer investors a range of implementation options within their portfolios. There is no one-size-fits-all approach when it comes to the range of implementation options that asset owners choose. Given the wide dispersion around investor values and beliefs, consultants are equipped to handle a range of services. The vast majority (94%) consultants have enhanced their due diligence processes to cover ESG considerations and most (83%) have been adding to their stable of sustainable products to assist with manager selection. Nearly three-quarters (72%) of consultants are equipped to help

their clients establish a strategy and responsible ESG investment policy guidelines. This can include help with asset class or sector-specific responsible investment guidelines and strategic asset allocation, a screening/exclusionary policy, proxy voting policy, engagement policy, and/or ESG guidelines within an overall investment policy statement or a separate ESG investment policy.

Asset owners place top importance on asset managers having an articulated mission and culture in which diversity and inclusion is central, with 34% ranking it as one of the most important criteria used to evaluate managers on ESG.

Investment Consultants: Responsible Investing Support Offered by Consultants, 2020

Source: Cerulli Associates | Analyst Note: Other responses include back-office implementation.



Research shows growing use of and demand for third-party support with responsible investing from institutional investors. More than half (57%) of asset owners are using the support of an investment advisor/consultant (40%) or OCIO (17%) to support them with responsible investing, up from 37% in 2019. Another 16% plan to use a consultant/advisor and 14% plan to use an OCIO. A growing list of consultants and OCIOs are adding capabilities and tools to assist their clients in incorporating ESG considerations into their investment portfolios.

Many investment committees and boards are still in early stages of figuring out how they want to define their ESG investment objectives and incorporate them into policies are seeking support from their consultant or OCIO.

Accordingly, Cerulli believes that opportunities exist for consultants and OCIOs to support asset owners with implementing ESG into their organization's priorities, principles, or decision criteria.

Allocators want to see asset managers joining forces to share ideas, help improve the quality of data, and support analysts and the industry to better able to understand the value of ESG data.

Cerulli for Research and Consulting

For nearly 30 years, Cerulli has provided global asset and wealth management firms with unmatched, actionable insights.

Headquartered in Boston with fully staffed offices in London and Singapore, Cerulli Associates is a global research and consulting firm that provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.

Cerulli's research product line includes the Cerulli Report series, the Cerulli Edge series, and Cerulli Lodestar.

Contact us to learn more:

info@cerulli.com | www.cerulli.com



CERULLI
ASSOCIATES

Research | Analytics | Consulting

info@cerulli.com | www.cerulli.com



United States

699 Boylston Street
Boston, MA 02116
United States
+1 617-841-1011



Europe

Valiant House,
4-10 Heneage Lane
London EC3A 5DQ
United Kingdom
+44 (0)20 7645 9040



Asia

10 Anson Road, #24-15
Singapore 079903
+65 6327 4045