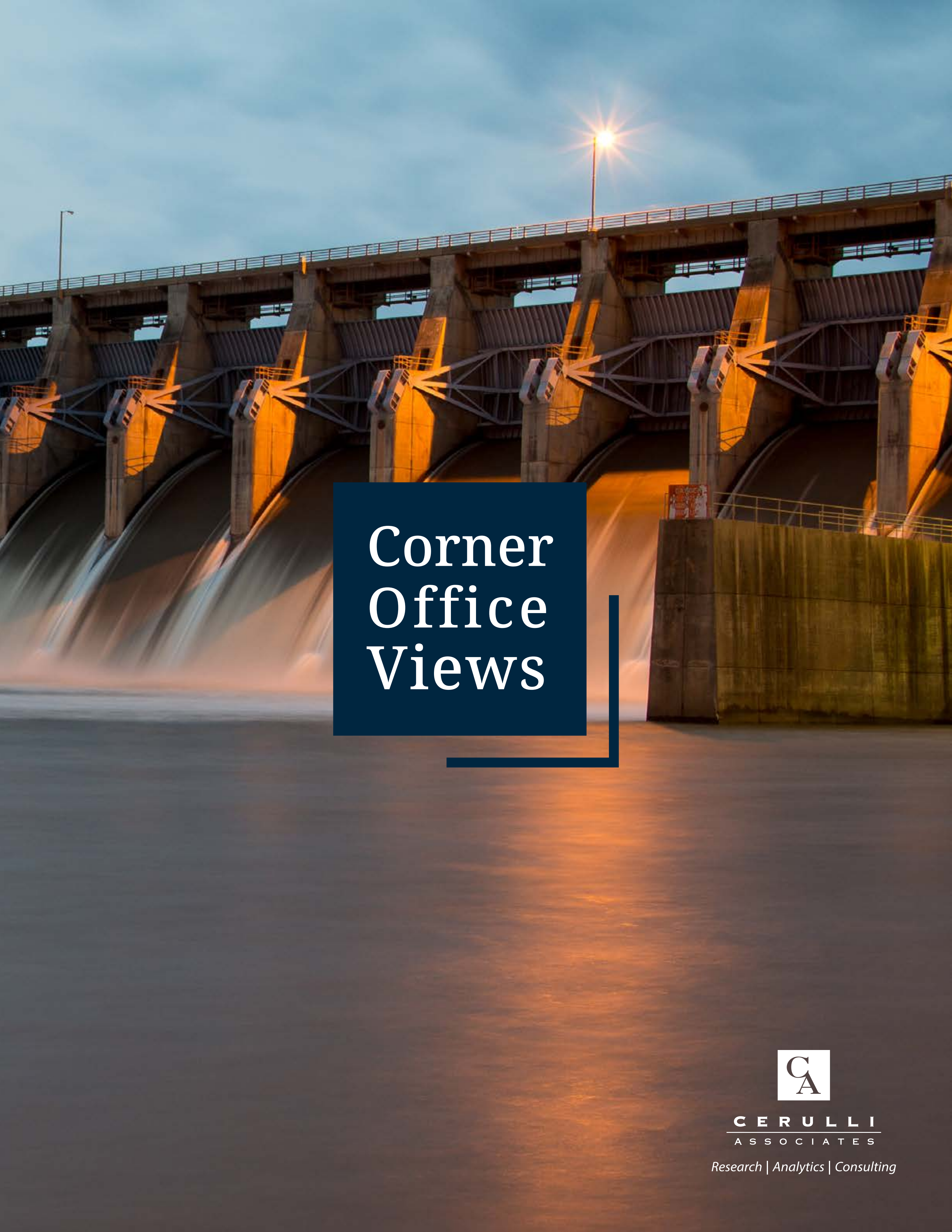

Corner Office Views

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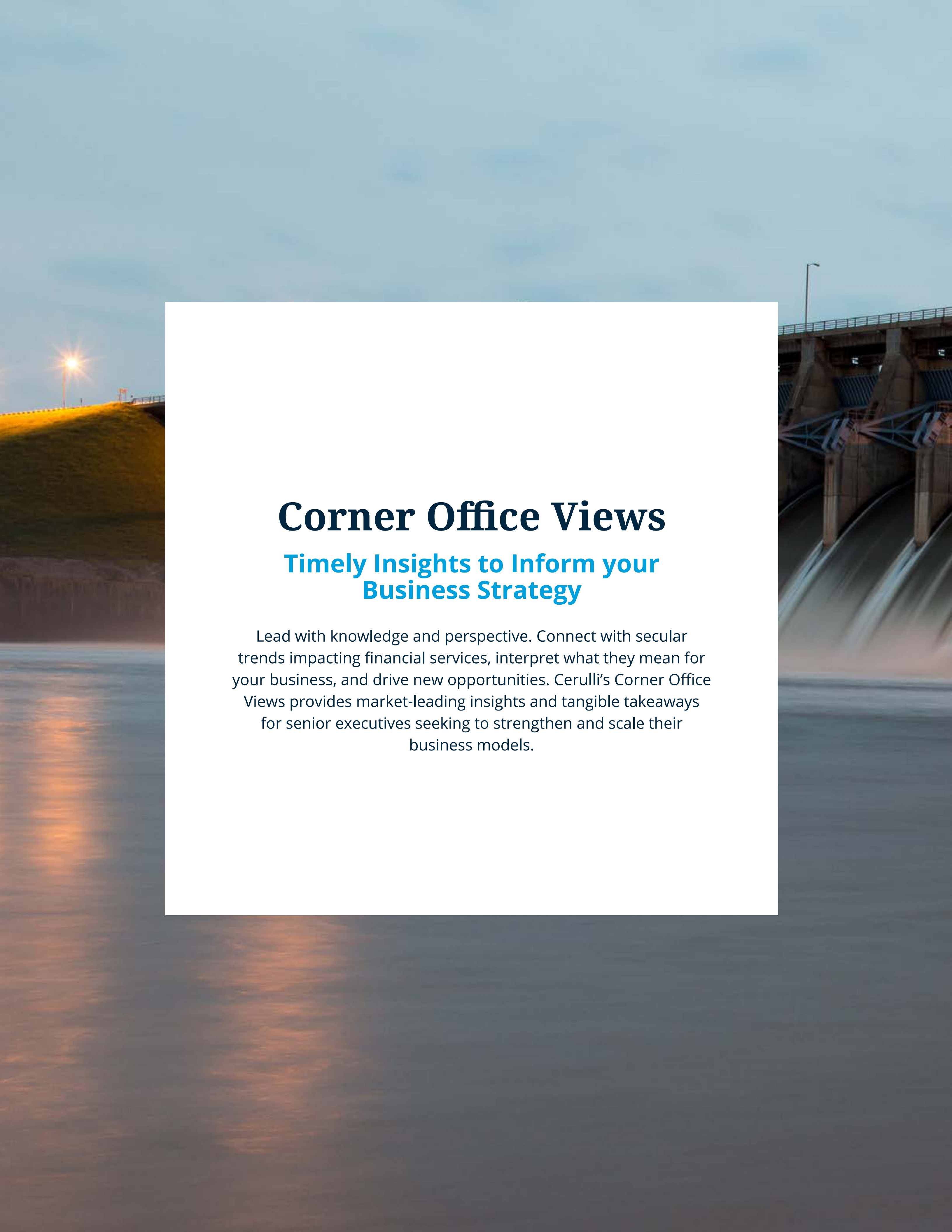

Corner Office Views

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

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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

Honors and Awards

- 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

- Advised large asset manager on investor and advisor segmentation for ESG products
- 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)

U.S. Managers Seek ESG Products, Headcount, and Data

Consistent ESG standards still needed

Key Points

- Climate-focused themes remain a top emphasis for asset managers' new product launches.
- Separate accounts remain the most popular vehicle used by asset managers to package their ESG products, given their transparency, customization, and tax harvesting benefits.
- Asset managers continue to seek better quality and more transparent ESG data to help inform decisions; managers are using their own proprietary data, as well as multiple datasets.
- Asset managers must collaborate with organizations to help create ESG industry standards.

Climate leads the way

In 2021, environmental issues top product development efforts, with climate change (82%) ranking as the leading theme. At the same time, the COVID-19 pandemic and racial and social justice issues that continue to make headlines are encouraging more asset managers to focus on emerging issues such as labor standards, human rights, and diversity and inclusion. Gender (31%), labor standards (29%), human rights (27%), and equal employment opportunity and diversity (27%) are the top social themes addressed.

Climate-focused themes also remain a top area of focus for asset managers' impact funds, with clean technology and renewable energy (84%), food and sustainable agriculture (50%), and water, sanitation, and hygiene (41%) among the top-five areas addressed. Leading social issues addressed include healthcare (50%), housing (41%), and community economic development (38%).

Asset Managers: Top-20 ESG Themes Addressed for Product Development, 2021

Rank	Issue	Category	Developing Product
1	Climate change/carbon	Environmental	82%
2	Sustainable natural resources/agriculture	Environmental	50%
3	Fossil fuel divestment	Environmental	50%
4	Clean water/water scarcity	Environmental	50%
5	Energy efficiency	Environmental	48%
6	Waste management	Environmental	36%
7	Pollution	Environmental	32%
8	Gender	Social	31%
9	Labor standards	Social	29%
10	Human rights	Social	27%
11	EEO/Diversity	Social	27%
12	Civilian firearms	Social	21%
13	Affordable housing/community development	Social	21%
14	Board issues/composition	Governance	20%
15	Bribery and corruption	Governance	20%
16	Reasonable supply chain/material sourcing	Governance	20%
17	Conflict risk	Governance	19%
18	Data protection and privacy	Governance	17%
19	Community relations	Governance	17%
20	Employee engagement	Governance	17%

Source: Cerulli Associates

Separate accounts wrap ESG products

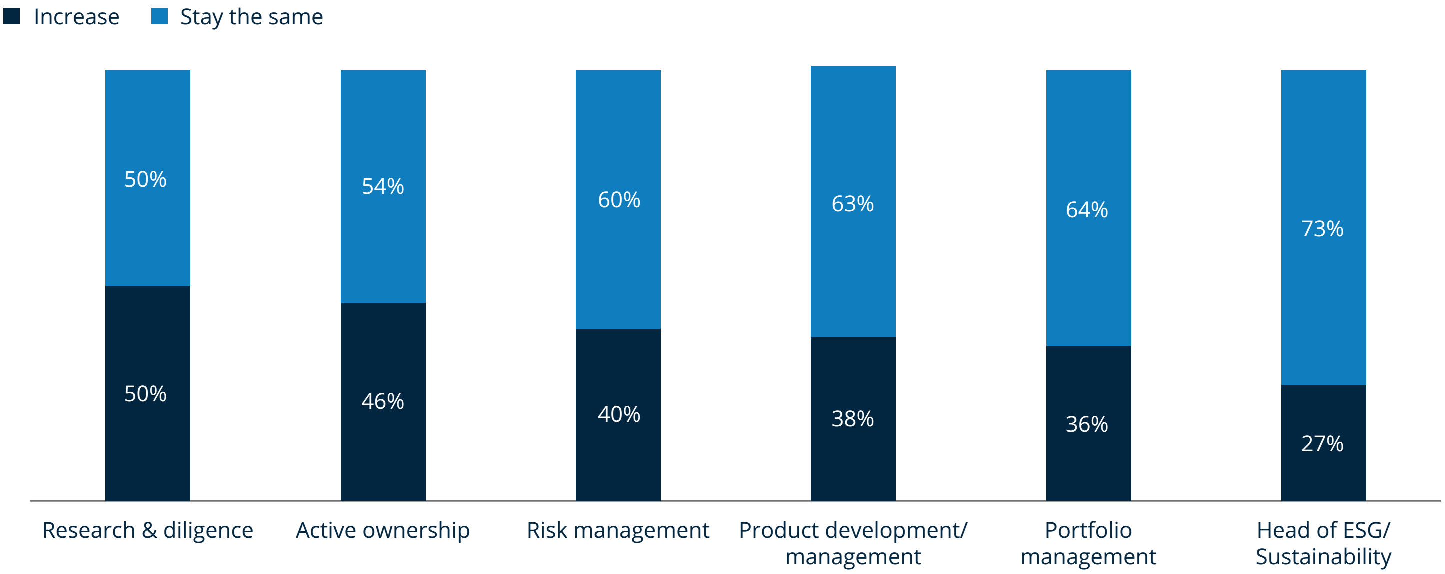
In terms of products, a majority of asset managers plan to wrap their publicly traded responsible investment strategies in institutional separate accounts (85%) and mutual funds (68%). Nearly one-third of managers (32%) plan to use retail separate accounts and ETFs. Separate accounts remain the most popular vehicle used by asset managers to package their ESG products, given their transparency, customization, and tax harvesting benefits.

> ETF issuers and advisors see the most unmet demand for ESG/socially responsible investing ETFs than any other product type.

To bring these benefits downmarket, behemoth asset managers and wealth managers have engaged in a string of acquisitions of direct indexing providers to buy the technology needed to make these offerings available to the mass-affluent market. Direct indexing is an approach that allows investors to replicate a custom index with individual securities in a separately managed account. Currently, just less than one-fifth (18%) of asset managers have plans to use direct indexing solutions, but Cerulli anticipates this number to grow as asset managers position to bring these options to advisors and retail investors.

It is also important to note that ETF issuers and advisors see the most unmet demand for ESG/socially responsible investing (SRI) ETFs than any other product type. ETF issuers and advisors believe that there is growing unmet demand for sustainable ETFs, with 61% and 38%, respectively, seeing unmet demand for these products.

Asset Managers: Planned Changes to Staffing of ESG Resources - Core Responsibility, 2021



Source: Cerulli Associates

Managers' ESG-related headcount

All asset managers polled place at least moderate importance on incorporating environmental, social, and governance (ESG) considerations into their investment decision-making processes. Thus, asset managers continue to add ESG headcount. Approximately half of asset managers plan to add ESG research roles and staff to help with active ownership responsibilities. More than one-third plan to add risk management (40%), product development/management (38%), and portfolio management (36%) headcount.

Managers also plan to assign ESG-focused responsibilities to existing personnel, with more than one-third planning to assign tasks in the following areas: active ownership (38%), research & diligence (38%), and risk management (36%).

ESG data will inform decisions

Asset managers continue to seek better quality and more transparent ESG data to help inform decisions. In addition to using their own proprietary data, asset managers are using multiple datasets. Merger and acquisition activity of ESG data providers continues, as the largest providers seek to strengthen their position as a leading ESG data platform.

Meanwhile, investment consultants continue to dig deeper on managers' ESG capabilities as part of the manager due diligence and selection process. Additionally, third-party databases, such as eVestment and Morningstar, are expanding the ESG-related data they collect to provide investors using the databases with more information on managers' ESG capabilities.

Collaboration needed for ESG industry standards

Despite the forward progress, for some managers, ESG commitments still remain aspirational. Industry organizations such the United Nations group Principles for Responsible Investing (PRI) and the CFA Institute have developed voluntary ESG standards, but the U.S. has not seen the same binding top-down, government-led regulatory action as the European Union through the Sustainable Finance Disclosure Regulation (SFDR) aimed to make investment managers back up ESG claims.

While under the Biden administration the SEC is putting more focus on ESG-related issues, in the near term, industry organizations are tasked with providing standards and management. Asset managers should continue to collaborate with and join organizations such as the Sustainable Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), and the Task Force on Climate-related Financial Disclosure (TCFD) to help create industry standards and push for consistency and transparency.

Cerulli Research and Consulting

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

Cerulli Associates is an international 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.

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