Purpose of this discussion paper

■ Demystify the misconception that passive investment does not allow for the incorporation of ESG

■ Investigate how the incorporation of ESG can be achieved in both investment decisions & in the execution of active ownership

■ Share potential solutions to challenges and barriers that investors have encountered
Misconceptions

Passive investors ≠ Responsible Investors?

- **Investment Process (Principle 1)**
  - Enhance Returns
  - Strengthen Risk Management
  - Align Strategies with the Priorities of Beneficiaries and Stakeholders

- **Active Ownership (Principle 2)**
  - Drive Market Transparency Systematically
  - Cope with Systematic Challenges Collectively
  - Demonstrate Leadership
  - Collaborate Collectively with Other Asset Owners
How to Incorporate ESG into Passive Investments

**ESG in Passive Investments**

**Investment Process**
*Principle 1*

ESG Indexes (screening, best in class, tilts approach ..Etc)

**Active ownership**
*Principle 2*

“A Practical Guide to Active Ownership in Listed Equity “
Valeria Piani, Feb 2018, PRI
# Challenges and Current Good Practices

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<th>Market Cap Weighted Index</th>
<th>Alternative Beta</th>
<th>Current Practice (Case Studies)</th>
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<td>Pure Tracker</td>
<td>ESG Ex./Tilt/Bias</td>
<td>(Factor/Smart Beta Investing)</td>
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**Data Related**
- Data Availability/Quality/Consistency
- ESG data/Index Transparency
- Standardisation of ESG definition
- Static ESG factors from dynamic real world issue
- False Accuracy

Comparing and Contrasting Data sets

**Portfolio Related**
- Fees
- Unintended Consequence

EU Benchmarks Regulations/EU HLEG

**Engagement Related**
- Regulatory constraints
- Dilution of collaborative efforts - Difficult for mid/small asset

Robeco SAM/ Swiss Re

GPIF

Source: PRI
Implementing responsible investment strategies for passive portfolios

Majdi Chammas, Head of External Management, AP1
Jessica Huang, Director of Sustainable Investment, BlackRock
Laura Nishikawa, Head of Fixed Income ESG Research, MSCI
Nathalie Wallace, ESG Investment Strategist, State Street Global Advisors

Moderated by Brian Rice, Portfolio Manager, CalSTRS
Next steps

Publication 4Q 2018
Discussion Paper

Panel sessions

PRI in Person Conference – San Francisco, 13 Sep. 2018
ESG in Passive Investments – 1Q 2019

Source: PRI
Stay up to date!

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Source: PRI