

# Stichting Bedrijfstakpensioenfondsv Zorgverzekeraars

---

September 2018

Beleid van Russell Investments ten aanzien van de beleggingsportefeuille van Stichting Bedrijfstakpensioenfondsv Zorgverzekeraars voor:

- Maatschappelijk Verantwoord Beleggen
- Environmental, Social and Governance ('ESG')



## Inhoud

---

Inleiding .....	3
Ondertekening UN PRI door Russell Investments.....	4
Implementatie ESG Beleid .....	5
Manager Research .....	5
Kapitaalmarkt analyses .....	6
Beleggingsrichtlijnen managers inzake ESG .....	7
Stemmen op aandeelhoudersvergaderingen .....	7
Engagement .....	7
Uitsluitingen .....	8
Materialiteitsbeginsel .....	8
Impact beleggingen .....	8
Samenvatting .....	10
Bijlage - PRI Assessment Report.....	
Bijlage - Russell Investments Research Note.....	
Bijlage - Proxy Voting and Engagement Report 2017 .....	

## Inleiding

---

Russell Investments heeft in 2009 de UN PRI (beginselen van verantwoord beleggen van de Verenigde Naties) ondertekend. In deze memo zetten wij uiteen op welke wijze Russell Investments omgaat met maatschappelijk verantwoord beleggen en milieugerelateerde, sociale en bestuurlijke (ESG) kwesties. Daarnaast beschrijven wij verschillende initiatieven waaruit blijkt welk belang Russell Investments hecht aan verantwoord beleggen. In dit kader lichten wij eveneens toe hoe Russell Investments ESG heeft geïntegreerd in zijn beleggingsproces.

## Ondertekening UN PRI door Russell Investments

---

Met de ondertekening van de UN PRI in 2009 heeft Russell Investments besloten om duurzaamheid tot een belangrijk aandachtspunt te maken van haar werkzaamheden. Als ondertekenaar van deze beginselen heeft Russell Investments zich vrijwillig verbonden aan een zestal werkwijzen ('best practices') die een kader bieden voor een verdere integratie van ESG-vraagstukken in onze beleggingsprocessen:

- ESG-vraagstukken zullen onderdeel uitmaken van de beleggingsanalyse en besluitvormingsprocessen;
- Russell Investments zal ESG-vraagstukken proactief behandelen;
- Russell Investments zal aandringen op passende informatieverstrekking over ESG-vraagstukken bij entiteiten waarin wordt belegd;
- Russell Investments zal de aanvaarding en implementatie van de UN-beginselen onder haar managers bevorderen;
- Russell Investments zal samenwerken om de UN-beginselen effectiever te kunnen implementeren; Russell Investments doet verslag over alle activiteiten en de voortgang bij de tenuitvoerlegging van de beginselen. Het PRI Transparency Report van Russell Investments voor 2018 is beschikbaar op de volgende website: <https://www.unpri.org/signatories/russell-investments/1728.article>

Binnen Russell Investments is de Sustainability Council verantwoordelijk voor het beleid van Russell Investments op het gebied van duurzaam en verantwoord beleggen, aan te sturen en te ondersteunen. De Sustainability Council rapporteert rechtstreek aan de Executive Committee van Russell Investments over de voortgang van verantwoord beleggen.

Jaarlijks ontvangt Russell Investments een rating van UN PRI, de rating van Russell Investments voor 2018 is 'A'. In de bijlage is de beoordeling van Russell Investments door UN PRI opgenomen.

## Implementatie ESG Beleid

---

In deze paragraaf hebben wij een opsomming gemaakt van de wijze waarop Russell Investments maatschappelijk verantwoord beleggen en milieugerelateerde, sociale en bestuurlijke (ESG) kwesties hebben ingevoerd in onze kernprocessen.

### Manager Research

Onderdeel van de beoordeling van een vermogensbeheerder door Russell Investments is de mate waarin ESG-factoren onderdeel vormen van de beleggingsstrategie van de beheerder. Daarin constateert Russell Investments een toenemende integratie van ESG-vraagstukken in de processen van de vermogensbeheerders, wat als een belangrijke erkenning kan worden gezien. Eveneens constateert Russell Investments dat integratiemethodes van ESG-factoren in het beleggingsproces verbeteren, maar dat nog niet altijd sprake is van een volledig perfect proces.

### Samenwerking met Sustainalytics

Bij een beoordeling van een vermogensbeheerder wordt nagegaan welke ESG-factoren specifiek van toepassing zijn op een beleggingsstrategie, d.w.z. die zaken welke geacht worden een financieel substantiële impact te hebben. In dat kader maken wij gebruik van de diensten van Sustainalytics. Sustainalytics voorziet Russell Investments van ESG-gegevens, wat betekent dat Russell Investments in staat is om portefeuilles van de huidige en potentiële vermogensbeheerders te analyseren aan de hand van een breed scala aan ESG-factoren. Dit stelt Russell Investments o.a. in staat om te beoordelen hoe effectief beheerders de risico- en rendementseffecten van ESG op hun strategieën evalueren.

### ESG Knowledge Specialisten

Russell Investments verlangt een basis kennis van ESG van al haar Manager Research analisten wereldwijd. Dit wordt gerealiseerd middels training en in-house ESG specialisten. In ieder team (vastrentend, aandelen en alternatives) worden ESG knowledge specialisten (EKS) benoemd. Deze EKS initieert, ontwikkelt en waarborgt ESG gespecialiseerde kennis binnen het betreffende team.

### ESG Ranking

Een kerncompetentie van Russell Investments is onze manager research. In 2014 hebben wij de ESG-integratie in het beleggingsproces toegevoegd aan onze evaluatie van elke manager. Sinds wij dit specifieke onderdeel hebben toegevoegd aan onze manager evaluatie, hebben we ongeveer 70% van al onze 3 en 4 ranked managers in alle beleggingscategorieën beoordeeld.

Door een combinatie van on-site interviews met beleggingsprofessionals, het opsturen van questionnaires in combinatie met een kwantitatieve beoordeling van hun portefeuilles, beoordelen onze manager research analisten hoe goed een manager de risico- en rendementseffecten van ESG-factoren beoordeelt en verwerkt in haar beleggingsproces.

De ESG ranking komt als volgt tot stand:

- Beleid (40%)
- Proces (40%)
- Aanbod (10%)
- Bewustzijn (10%)

Bij de beoordeling kijken we naar een groot aantal factoren, zoals:

- Ondertekent de manager de UNPRI?
- Aanwezigheid van een formeel beleid voor verantwoord beleggen?
- Welke database(s) van derden worden gebruikt? Bijvoorbeeld Sustainalytics of MSCI.
- In hoeverre zijn externe gegevens gecombineerd met interne expertise?
- Hoe vaak worden beleggingsbeslissingen overschreven door ESG-overwegingen?
- Welke ESG-factoren zijn het belangrijkste in het beleggingsproces?

- Zijn de beleggingsprofessionals gepassioneerd over ESG?
- Heeft de manager specifieke ESG-producten?

Belangrijk om te melden is dat ESG-bewustzijn en -integratie niet gaat over het onderwegen of uitsluiten van beleggingen, op basis van ESG, of juist beleggingen op te nemen in de portefeuille vanwege hogere ESG scores. Het gaat bij de bewustzijn en integratie eerder om het inzicht in hoe E, S en G een bedrijf beïnvloeden, en dit van invloed op de toekomstige koersverloop van de belegging. Daarom kan het volledig legitiem zijn dat een manager met een hoge rating een significant exposure heeft naar; bijvoorbeeld bedrijven met fossiele brandstoffen of arbeids- bestuurskwesties. De manager dient inzicht te hebben:

- Hoe deze kwesties bijdragen aan het toekomstige succes (of niet) van het bedrijf
- Hoe goed de huidige prijs deze factoren weerspiegelt
- Hoe de prijs waarschijnlijk zal veranderen op basis van deze factoren
- Wat gemonitored moet worden en wanneer besloten dient te worden wanneer een belegging verkocht dient te worden

In de onderstaande afbeelding tonen we laten we de kwalitatieve criteria en de daarbijbehorende ratings zien met betrekking tot de ESG-integratie bij managers in hun beleggingsproces.



### Kapitaalmarkt analyses

Ook de analisten van het team Capital Markets maken gebruik van de Sustainalytics ESG data bij de beoordeling van het manager universum en indexen. Russell Investments Capital Market Research heeft in 2014 een onderzoek afgerond waarin het globale manager universum en indexen wordt beschreven in termen van ESG scores. In 2015 is dit onderzoek verder verfijnd naar specifiek het Europese manager universum. De Russell Investments Research note<sup>1</sup> is in de bijlage opgenomen. Onderzocht is of er een relatie bestaat tussen het creëren van financiële waarde en actieve ESG selectie. Hierbij is gebruik gemaakt van ESG scores van 4.400 wereldwijde bedrijven uit de Sustainalytics database. Er zijn een aantal noemenswaardige conclusies te vermelden:

- ESG scores zijn gestegen in de tijd voor zowel voor het Russell Investments manager universum als voor de bijbehorende indexen.
- Governance is in toenemende mate een belangrijk selectie criterium wereldwijd.

<sup>1</sup> Russell Investments Research note: "Are ESG tilts consistent with value creation in Europe?" by Leola Ross, Ph.D., CFA, Director, Capital Markets Research

- ESG scores zijn hoger voor cap-gewogen indexen dan voor gelijkgewogen indexen. Dit suggereert large-cap dominantie.
- ESG scores zijn het hoogst binnen de regio Europa. US scoort bijvoorbeeld lager.
- Regionale verschillen in ESG scores mogelijk verklaard door culturele verschillen en historie.
- Actieve managers hebben een consistente positieve tilt naar ESG criteria.

De conclusies leren ons dat ESG criteria belangrijke factoren zijn om mee te nemen in beleggingsbeslissingen. Daarnaast denken we aannemelijk te hebben gemaakt dat er een consistentie is tussen ESG factoren en lange termijn waardecreatie.

### Beleggingsrichtlijnen managers inzake ESG

Voor alle nieuwe vermogensbeheermandaten geldt de volgende ESG beleggingsrichtlijn:

*“Russell Investments requires that the Money Manager consider environmental, social and governance factors in their investment decision making to the extent these factors are relevant and can be integrated into the Money Manager’s investment processes”*

Daarnaast heeft Russell Investments bovenstaande richtlijn in alle beleggingsmandaten van de segregated accounts van SBZ opgenomen.

### Stemmen op aandeelhoudersvergaderingen

Voor de beleggingsfondsen van Russell Investments heeft Russell Investments een eigen beleid voor het stemmen op moties die door bedrijven aan aandeelhouders worden voorgelegd. Ieder kwartaal wordt SBZ geïnformeerd over dit stembeleid, onderverdeeld naar fonds, aandeel en aandeelhoudersvergadering. Voor de segregated accounts van SBZ is Robeco aangesteld om namens SBZ te stemmen op aandeelhoudersvergaderingen.

Het stembeleid (proxy voting) van Russell Investments wordt periodiek door de Russell Investments Sustainability Council geëvalueerd, waarbij frequent de stemrichtlijnen worden geactualiseerd. Zaken ten aanzien van governance hebben vanzelfsprekend altijd centraal gestaan in dit beleid. Het belangrijkste gevolg van de verandering is dat Russell Investments doorgaans vóór stemt als moties om meer toelichting vragen van bedrijven over specifieke ESG-vraagstukken.

Jaarlijks publiceert Russell Investments het ‘Proxy and Engagement Report’, waarin verantwoording wordt afgelegd over het stembeleid van Russell Investments. In de bijlage is het ‘Proxy and Engagement Report’ over 2017 opgenomen (eveneens te raadplegen via <https://russellinvestments.com/uk/about-us/corporate-responsibility/responsible-investing>).

### Engagement

Binnen de beleggingsfondsen van Russell Investments vindt ‘engagement’ plaats (aangaan van dialoog met bedrijven op milieugerelateerde en sociale kwesties) op E en S kwesties met meerdere bedrijven. Binnen Russell Investments is de Engagement Committee verantwoordelijk voor het aangaan van dialogen met verschillende bedrijven. De Engagement Committee wordt daarbij ondersteund door informatie van Sustainalytics. De informatie van Sustainalytics gebruiken wij eveneens in onze voorlichting aan de vermogensbeheerders over engagement.

In het ‘Proxy and Engagement Report’ wordt jaarlijks verantwoording afgelegd over het engagementbeleid van Russell Investments.

Voor de segregated accounts van SBZ is Robeco aangesteld als engagement manager. Russell Investments voorziet Robeco van holdings van de wereldwijde aandelenportefeuille en wereldwijde portefeuille met bedrijfsobligaties op maandbasis.

## Uitsluitingen

In de beleggingsfondsen van Russell Investments worden bedrijven die controversiële wapens produceren uitgesloten.

Daarnaast heeft Russell Investments voor de discretionaire mandaten van SBZ het uitsluitingenbeleid geïmplementeerd. Aan de hand van een door Robeco verstrekt overzicht met uitgesloten landen en bedrijfsnamen zijn de beleggingsrichtlijnen van de managers aangepast.

Aansluitend heeft SBZ een aanvullend uitsluitingenbeleid geformuleerd ten aanzien van exposures naar tabaksondernemingen. De uitsluitingen zijn vastgelegd in de beleggingsrichtlijnen van de beheerders die in opdracht van SBZ discretionaire mandaten beheren. Tevens participeert SBZ in een beleggingsfonds van Russell Investments met exposure naar bedrijfsobligaties. Dit fonds heeft geen exposure naar tabaksondernemingen.

## Materialiteitsbeginsel

Naast discretionaire mandaten, participeert SBZ in (Russell Investments) beleggingsfondsen. Voor beleggingsfondsen is het niet altijd mogelijk om het specifieke uitsluitingenbeleid van SBZ te effectueren. Derhalve is ten aanzien van posities in ondernemingen op de uitsluitingenlijst of posities in (ondernemingen uit) uitgesloten landen alsmede posities in tabaksondernemingen een specifiek beleid omtrent materialiteit geformuleerd, namelijk:

- Een maandelijks rapportage over de eventuele exposure binnen de beleggingsfondsen naar landen en/of ondernemingen die op de SBZ uitsluitingenlijst staan;
- Een richtlijn dat niet in een nieuw beleggingsfonds mag worden belegd indien de totale exposure naar uitgesloten landen en/of ondernemingen meer dan 1% van de waarde van de aandelen- en obligatieportefeuille is;
- Een richtlijn dat een beleggingsfonds waarin reeds is belegd, moeten worden verkocht indien er zich gedurende een aansluitende periode van minimaal 3 maanden een exposure is naar uitgesloten landen en/of ondernemingen van meer dan 0,25% van de waarde van de aandelen- en obligatieportefeuille.

## Impact beleggingen

SBZ heeft impact beleggingen toegevoegd aan het totale beleid inzake verantwoord beleggen bij SBZ. De impact beleggingen met een allocatie van 1% op totaal portefeuille niveau vindt plaats in 2 categorieën: 'health care', 'micro finance' en 'climate change mitigation' wordt geleidelijk geïmplementeerd. Eind 2014 heeft een eerste investering plaatsgevonden binnen de 'health care' categorie.

Voor impact beleggen is een missiestatement opgesteld dat luidt:

*'De impact beleggingen van SBZ Pensioen richten zich op een verbetering van de doelmatigheid en kwaliteit van en/of toegang tot de gezondheidszorg of financiële zekerheid voor individuen. Daarnaast zullen in deze portefeuille beleggingen worden opgenomen die bijdragen aan klimaatbeheersing als uitgewerkt in het Klimaatverdrag van Parijs (COP21)'*

Hierbij is als doelstelling geformuleerd dat de impact beleggingen moeten passen bij de rendement- en risicodoelstellingen van de overall beleggingsportefeuille van SBZ. Eveneens zijn een aantal concrete randvoorwaarden opgesteld waaraan de impact beleggingen moeten voldoen.

Russell Investments onderneemt hiervoor de volgende stappen:

1. Vaststellen van een universum van mogelijke impact beleggingen;
2. Screening van impact managers en fondsen;
3. Investment en impact research op de volgende onderdelen:
  - a. Organisatorische omgeving;



- b. Team van beleggingsexperts (motivatie en ervaring);
  - c. Beleggingsproces (structuur en discipline);
  - d. Structuur/processen om impact doelstellingen te realiseren;
  - e. Mogelijke conflicts of interest;
  - f. Karakteristieken van het fonds;
4. Operationele due diligence alsmede legal review;
  5. Implementatie van de impact beleggingen

## Samenvatting

---

Russell Investments onderschrijft het belang dat beleggers inzicht willen hebben in ESG-vraagstukken omdat zij hierdoor beter in staat zijn om verkeerd geprijsde effecten en ondergewaardeerde risico's vast te stellen. We zijn dan ook van mening dat het noodzakelijk is om de capaciteiten van vermogensbeheerders op dit gebied te analyseren.

Daarnaast onderkent Russell Investments het belang van de invloed die ESG-vraagstukken hebben op onze manager research processen ter beoordeling van vermogensbeheerders. Met het evalueren van de risico- en rendementsaspecten van ESG zijn de beoordelingscriteria van onze manager research analisten verbeterd. Daarbij zal Russell Investments tevens gebruik maken van onze kapitaalmarkt expertise om onze ESG-inzichten te ondersteunen.

Russell Investments heeft voor SBZ het ESG-beleid voor de segregated accounts en fondsbeleggingen geïmplementeerd en zijn daarmee in lijn met de specifieke ESG doelstellingen van SBZ.

## Important information

### **For Professional Clients Only.**

Unless otherwise specified, Russell Investments is the source of all data. All information contained in this material is current at the time of issue and, to the best of our knowledge, accurate. Any opinion expressed is that of Russell Investments, is not a statement of fact, is subject to change and does not constitute investment advice.

The value of your investments may fluctuate. Results achieved in the past do not offer any guarantee for the future.

Issued by Russell Investments Limited. Company No. 02086230. Registered in England and Wales with registered office at: Rex House, 10 Regent Street, London SW1Y 4PE. Telephone +44 (0)20 7024 6000. Authorised and regulated by the Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.

Issued by Russell Investments Ireland Limited. Company No. 213659. Registered in Ireland with registered office at: 78 Sir John Rogerson's Quay, Dublin 2, Ireland. Authorised and regulated by the Central Bank of Ireland. Registration number KvK: 67296386

## Bijlage - PRI Assessment Report

---

## Summary of the 2018 PRI Assessment

The United Nations-backed Principles for Responsible Investment (PRI) are a globally recognised benchmark for the consideration of environmental, social, and corporate governance (ESG) issues. Russell Investments is pleased to announce that in 2018, the PRI awarded our firm an ‘A’ rating for our approach to responsible investing.

### Principles for Responsible Investment

Launched in April 2006, the PRI is an investor initiative developed in partnership with the United Nations Environment Programme Finance Initiative and the United Nations Global Compact. They are global best practices that challenge investors to acknowledge ESG issues.

#### The PRI have six principles:

1. Incorporate ESG issues in investment analysis and decision-making processes
2. Actively own and incorporate ESG issues in ownership policies and practices
3. Seek appropriate disclosure on ESG issues from the entities invested in
4. Promote acceptance and implementation of the principles within the investment industry
5. Work together to enhance effectiveness in implementing the principles
6. Report on activities and progress towards implementing the principles

The number of PRI pledges has grown rapidly since 2006. Today, signatories total in excess of 1900 organisations – spanning investment managers, asset owners and service providers from 48 countries and representing around \$81 trillion in assets.<sup>[1]</sup>

As such, these principles have become a well-respected global benchmark.

### Russell Investments and the PRI

---

#### **PRI's Mission:**

*“We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.”*

---

Russell Investments have publicly committed to embedding the PRI's six principles where consistent with our fiduciary responsibilities.

Each year, signatories of the PRI disclose their approach to responsible investment, policies and procedures. The PRI then reviews each company's credentials both on an individual and a peer-relative basis before awarding them an official PRI rating for the year.

#### **Russell Investments achieves consistently high grading across process**

This year, Russell Investments recorded an A+ for our Strategy & Governance and Listed Equity Incorporation, and an A rating across all other assessment modules. Module breakdowns are available in the table overleaf.

<sup>[1]</sup> <https://www.unpri.org/Uploads/n/1/PRI-Global-growth-2006-2018.xlsx>

## Demonstrated commitment

Please find below a breakdown of Russell Investments' overall scores across all 11 modules reported on.

The methodology, assessment report and transparency report can be found in the full PRI report.

MODULE	Russell score	Median score
Strategy and Governance	A+	A
Listed Equity	A	B
Fixed Income SSA	A	C
Fixed Income Corporate (Financial)	A	C
Fixed Income Corporate (Non-Financial)	A	C
Fixed Income Securitised	A	C
Private Equity	A	C
Property	A	C
Infrastructure	A	C
Listed Equity Incorporation	A+	B
Listed Equity Active Ownership	A	B

Global Chair of Russell Investments' Responsible Investment Committee Pete Gunning, said:

*"The 2018 assessment from the UNPRI acknowledges the integrated approach we have taken to embed ESG considerations throughout our investment process. The consistent high performance across all asset classes is testament to the time and effort that our teams have committed to this increasingly important topic."*

## Concluding thoughts

Russell Investments has made great strides over the years in incorporating the PRI principles into our processes including manager research, portfolio management as well as proxy voting and engagement. In addition, considering and incorporating ESG-specific strategies such as our proprietary decarbonisation strategy and ESG tilting methodology, form an important part of our product development process.

We believe that our ongoing commitment to the PRI is one of the best ways that we can demonstrate to our clients and our peers alike our dedication to responsible investing.

We will continue to focus on the implementation of PRI's six principles to support our clients and society in responsible and sustainable investing.

## Important Information:

Unless otherwise specified, Russell Investments is the source of all data. All information contained in this material is current at the time of issue and, to the best of our knowledge, accurate. Any opinion expressed is that of Russell Investments, is not a statement of fact, is subject to change and does not constitute investment advice. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested.

Issued by Russell Investments Limited. Company No. 02086230. Registered in England and Wales with registered office at: Rex House, 10 Regent Street, London SW1Y 4PE. Telephone 020 7024 6000. Authorised and regulated by the Financial Conduct Authority, 12 Endeavour Square, London E20 1JN. Russell Investments Ireland Limited. Company No. 213659. Registered in Ireland with registered office at: 78 Sir John Rogerson's Quay, Dublin 2, Ireland. Authorised and regulated by the Central Bank of Ireland. Russell Investments Limited (DIFC Representative Office) is regulated in the United Arab Emirates by the Dubai Financial Services Authority at: Office 4, Level 1, Gate Village Building 3, DIFC, PO Box 506591, Dubai UAE. Telephone 971 4 359 0322. KvK number 67296386

©1995-2018 Russell Investments Group, LLC. All rights reserved.

EMEA-1483 MCR-00452 First used: Sept 2017 Updated: Sept 2018 Expires: 04 Sept 2020

## **Bijlage - Russell Investments Research Note**

---

Russell Investments Research note: "Are ESG tilts consistent with value creation in Europe?"

# Are ESG tilts consistent with value creation in Europe?

Leola Ross, Ph.D., CFA, Director, Capital Markets Research  
 Peiyuan Song, Associate Research Analyst  
 Will Pearce, ASIP, Portfolio Manager, Multi-Strategies  
 Veronique Botton, Senior Research Analyst, U.K. and European Equities\*

## EXECUTIVE SUMMARY

Based on the analysis of Environmental, Social and Governance (ESG) factors in markets and active manager portfolios, we observe that:

- 1. Median and average ESG factor scores** for market indices and for manager positions have grown significantly over the last three years.
- 2. Active managers in Russell's European universes** exhibit high ESG scores that are consistent with the relatively high scores for the European market, with a small majority displaying positive ESG tilts.
- 3. There are regional differences** in ESG scores of markets and active manager portfolios, with Europe being a leader in the incorporation of ESG into the investment process.

The implication from our research is that investors may need to pay more attention to the impact of ESG on their investment returns. Our observations indicate that ESG is a moving target and a portfolio attribute that may be useful to monitor and evaluate.

The good news for investors who are concerned that ESG tilting might be value-eroding is that professional active managers, who are seeking to add value over a benchmark, do not seem to think so (i.e. ESG factors are likely consistent with the intent of adding long-term value through security selection). Moreover, there may be information in ESG scores that might assist active managers in the security selection process – information that they are not yet explicitly considering.

However, the varying importance of ESG factors across markets and manager behaviour means that investors cannot assume a 'one-size-fits-all' model will have a uniform impact globally. They need to understand the importance of each factor in each region to gain a better understanding of how ESG factors will influence their total portfolio.

## \*CONTRIBUTING STAFF

*Mike Clark, Director,  
Responsible Investment*

*Manisha Kathuria,  
Associate Director, Non-Profits*

*Steve Murray, Ph. D.,  
CFA, Director, Global  
Head of Allocation  
Strategies*

*Helma Verkouw, Director,  
Client Relations*

*Vivek Sondhi, Ph. D.,  
Senior Research Analyst*

*Shashank Kothare, FIA,  
Director, Investment  
Communications*



## Introduction

With some \$13.6 trillion of the invested assets evaluated by the Global Sustainable Investment Alliance (GSIA) now incorporating environmental, social and corporate governance (ESG) analysis,<sup>1</sup> the integration of ESG considerations into active portfolios seems to be gaining steam.

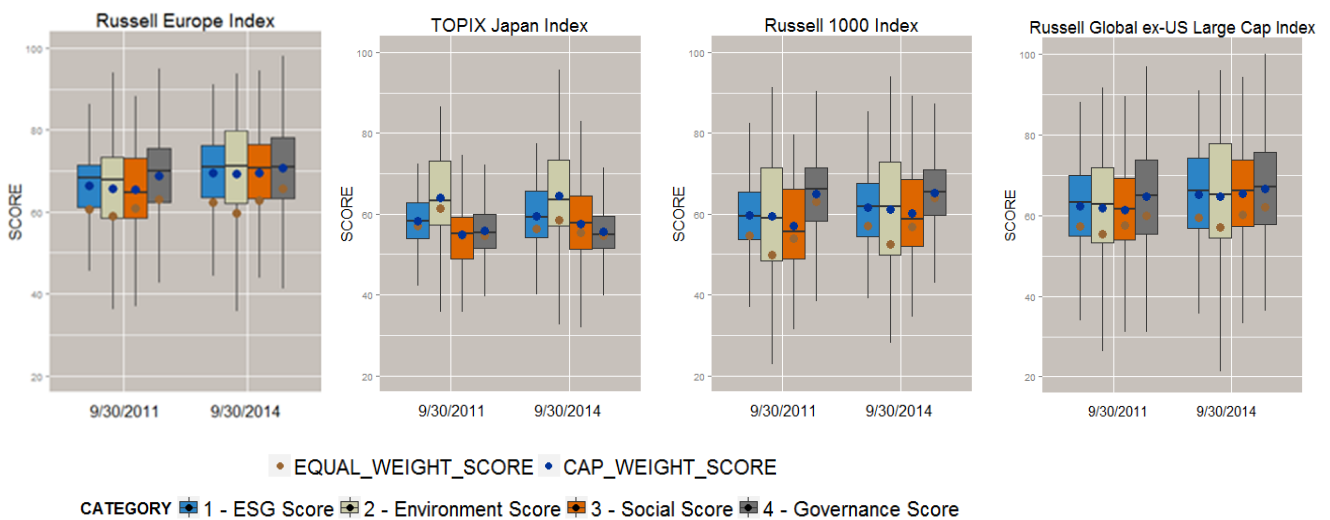
In our July 2014 research paper<sup>2</sup>, we revealed the growth and regional variations of ESG scores in different equity markets using three-year data to 30 September 2013. We also discovered that US and global ex-US active managers exhibited ESG tilts and were positively biased toward higher ESG scoring companies. This suggests ESG factors are consistent with value creation, i.e. it is not value eroding.<sup>3</sup>

In this paper we update the market analysis to include data to September 2014 and investigate whether we see similar evidence portfolios of active European equity managers. The results show that ESG scores within equity indices have increased and that active European managers have higher ESG scores than their US or global counterparts. Moreover, we have observed a clear increase in the time and effort dedicated to ESG by European equity managers as a community in recent years and broad support for its importance to investing.

In order to provide a fair and reasonable quantitative evaluation of a company's ESG factor exposure, we analysed the ESG factor exposures of various stock market indices using ESG scores from an independent third party, Sustainalytics<sup>4</sup>. We provide more details of the data and methodology in the Appendix.

## ESG trends within equity indices

**Exhibit 1: Security-level ESG score distribution across different equity markets**



Source: Russell calculations based on data from Sustainalytics.

<sup>1</sup> This represents roughly 22% of the funds under management in the regions surveyed by the GSIA, as reported in the 2012 Global Sustainable Investment Review (page 35). Note that this is 22% of assets evaluated by GSIA, but not necessarily 22% of Russell universes. Our current understanding is that ESG analysis is rarely an explicit input into portfolio construction for the universes considered in this analysis.

<sup>2</sup> See Ross, Song and Pearce (July 2014) "Are ESG tilts consistent with value creation?", Russell Research

<sup>3</sup> We are not seeking to link directly ESG tilts with excess return in a portfolio. Our thesis is that active managers with neutral or positive benchmark-relative ESG tilts offer an implicit endorsement of the consistency between ESG factors and the process of active value creation. Russell's experience in evaluating security selection among active equity managers is that these tilts are not engineered, but rather are by-products of ESG-agnostic processes; i.e., they are not intentional. Others have indicated that ESG may impact risk management in active portfolios (see UNPRI *Report on Progress 2014* and Churet, Cécile 2014).

<sup>4</sup> [www.sustainalytics.com](http://www.sustainalytics.com) The Sustainalytics data incorporates a number of selected indicators, weighted according to the sector in which they are operating. These include a broad range of core and sector-specific indicators that address sustainability policies, management systems and performance outcomes.

The charts above show the change in results for four equity indices from 30 September 2011 to 30 September 2014. The charts show the capitalisation-weighted 10th percentile (bottom of lower whisker), 25th percentile (bottom edge of box), 50<sup>th</sup> (horizontal line in the box), 75th percentile and the 90th percentile. We also highlight the equal-weighted average and the capitalisation-weighted average with reddish-brown and dark blue dots, respectively.

## Europe

Of the securities covered, we find that very few have ESG, E, S or G scores below 60 in Europe. Europe's focus on social welfare (often called a cradle-to-grave system), early development of public transportation systems, high population density<sup>5</sup>, and centuries-long development of business practices are likely explanations for the high ESG scores among businesses. In more recent years, the regulations in some countries will have contributed to the relatively high Environment scores as well.

*Europe as a region is strongly tilted toward high ESG scores relative to US and Global ex US indices*

We make several observations about ESG scores in Europe:

1. The “typical” range of European ESG scores is approximately 62 to 76—these scores are materially higher than the scores we observed in Ross, Song and Pearce (2014).<sup>6</sup> Therefore, we infer that **Europe as a region is strongly tilted toward high ESG scores relative to US and Global ex US indices.**
2. ESG, E, S and G scores exhibit increasing trends over the sample period as measured by cap-weighted average. Medians also increased during this time period. Therefore, we observe that **all scores have increased over time.**
3. The highest ranging scores in 2011 were Governance. By 2014 Environment, both at the median and at the 75<sup>th</sup> percentile exceeded Governance. We infer that **the importance of Environment to Europe has risen to parity with governance over the past three years.**
4. The cap-weighted index ESG, E, S, and G scores are uniformly and materially higher than the equal-weighted scores. From this we know that **Europe has a strong capitalisation bias in their ESG ratings.**<sup>7</sup>
5. **ESG scores for developed markets are greater than for emerging markets.** Exhibit 1 illustrates security-level ESG score distribution for securities in the Russell Europe Index, i.e. includes emerging markets. The coverage for the Russell Developed Europe Index was 74% in 2011 Q3 and 92% as of 2014 Q3, i.e. noticeably higher.

## Japan

Japan exhibits two main differences from the rest of the world. First, Japan ESG scores are dominated by Environmental. In a densely populated island nation, such attention to Environmental is not surprising. Second, Japan Governance scores are markedly different from other economies' scores. Japan's long history of cross-ownership among large corporations and the insularity of corporate board memberships have long been noted as very different from other developed economies. The latter is acknowledged by Prime Minister Shinzo Abe through his measures to reform corporate boards in Japan.<sup>8</sup>

## U.S. and Global ex-U.S.

The U.S. and Global ex-U.S. regions exhibit similar trends to Europe, with lower ranges of scores universally.<sup>9</sup> The US is clearly the laggard on Environment at the lower end, but has some very high scoring companies. As well, the US exhibits lower Social scores than other regions. While we don't exhibit here, the US scores are similar to Emerging Markets on the Social scores.

<sup>5</sup> Public transportation and high population density are indicative of a low-carbon culture relative to other regions where personal automobiles and urban sprawl are more dominant.

<sup>6</sup> In Exhibit 2, we observe that this observation may be generalised to most regions outside Europe.

<sup>7</sup> This strong cap weight bias is typical across the globe. Note that Europe certainly has its share of heavy industry and manufacturing. Large capitalisation companies in Europe include pharmaceuticals, mining, metals and energy.

<sup>8</sup> “Shinzo Abe's Bid to Shake Up Corporate Japan,” Hiroko Tabuchi. New York Times, June 24, 2014. As part of this initiative, Japan introduced the Japan Stewardship Code in 2014. <http://www.fsa.go.jp/en/refer/councils/stewardship/>

<sup>9</sup> See Ross, Song and Pearce, 2014, for a full exposition of the U.S. and Global ex-U.S. regions.

Where Europe is similar to the rest of the globe is that most scores are trending upward over time across the globe. Where Europe is dissimilar from the rest of the globe is in the level of ESG scores. Along with Australia, the European region is a global leader for ESG scores. These scores are bolded in the table below.

**Exhibit 2: Cap weighted ESG scores around the globe as of June 30, 2014**

REGION	ESG	E	S	G
Pan Europe	<b>69.3</b>	<b>69.1</b>	<b>69.4</b>	<b>70.6</b>
United Kingdom	<b>67.6</b>	<b>66.1</b>	<b>67.4</b>	<b>71.2</b>
Continental Europe	<b>71.1</b>	<b>72.0</b>	<b>70.9</b>	<b>71.3</b>
United States	61.5	61.1	59.9	65.5
Canada	62.7	58.1	63.1	68.8
Australia	<b>68.8</b>	<b>63.4</b>	<b>69.3</b>	<b>75.0</b>
Japan	59.8	65.3	57.7	55.7
Emerging Markets	58.6	56.2	59.5	60.8
Global	63.2	62.6	62.4	66.0

Source: Russell calculations based on data from Sustainalytics.

*We also know from our long history of evaluating active equity portfolios that most of these active products have a negative cap bias.*

## Equity indices – Summary

From our analysis of the Europe index and around the globe, we have three main observations:

- A rising range of scores across the globe
- A consistent cap bias, in that the larger companies exhibit higher ESG scores than smaller companies in the Sustainalytics universes
- A regional bias in Europe toward relatively high ESG scores

These findings are interesting, but largely descriptive. What we still don't know is how the active management community looks when viewed through the ESG lens. What biases are lurking in our active portfolios? In the next section we answer just this question.

## Analysis of European equity active manager behaviour

Our goal was to infer a link between value creation and ESG. We did this by investigating whether managers in the active universes exhibit ESG bias as they seek to add value over benchmarks. If the naysayers are right and ESG is a money-losing strategy, we should find that managers are biased against ESG – particularly in a marketplace where the ESG scores are so high. If the proponents of the value-based investing hypothesis are right, we should find evidence that active managers are positively biased.

Indeed, we do not find a negative bias in Europe and find that active managers have high ESG scores that are consistent with the relatively high ESG scores in the European market. We include details of the analysis in the Appendix.

Russell has observed a clear increase in the time and effort dedicated to ESG by European equity managers as a community in recent years and broad support for its importance to investing. There is also an increase in the number of dedicated ESG specialists who have collaborated with investment teams to make ESG part of the investment process. Russell has not observed a similar trend in all regions and views Europe as a regional leader in the incorporation of ESG into the investment process. For example, Governance and Environment appear to dominate the debate among UK based European equity managers while a more screening approach for 'best of breed' seems to prevail in France. Most typically, we observe that positive ESG criteria are seen as an indicator of higher quality stocks.

We demonstrate our final analysis in Exhibit 3. Here we compare the cap-weighted index scores noted in Exhibit 2 with the median manager scores from our universes. While our analysis (see the Modified Average Tilts in Exhibit A within the Appendix) depicts a neutral stance on ESG among the active managers in the Europe index, we find that recently

more than 50% of the manager universe has a score that is higher than the cap-weighted benchmark (noted by the orange, bold numbers).<sup>10</sup>

**Exhibit 3: Median manager ESG scores compared with cap-weighted average ESG scores around the globe as of June 30, 2014<sup>11</sup>**

REGION	ESG	E	S	G	ESG	E	S	G
	Manager median Score				Cap-Weighted Index Score			
Pan Europe	<b>69.4</b>	69.3	<b>69.0</b>	70.5	69.3	69.1	69.4	70.6
United Kingdom	65.5	64.3	64.3	69.2	67.6	66.1	67.4	71.2
Continental Europe	69.4	69.6	69.0	70.5	71.1	72.0	70.9	71.3
United States	<b>61.7</b>	<b>61.6</b>	<b>60.0</b>	65.3	61.5	61.1	59.9	65.5
Canada	62.1	57.5	62.3	68.2	62.7	58.1	63.1	68.8
Australia	68.2	62.6	68.8	74.6	68.8	63.4	69.3	75.0
Japan	<b>59.9</b>	65.3	<b>57.8</b>	<b>55.9</b>	59.8	65.3	57.7	55.7
Emerging Markets	58.0	55.2	59.0	60.3	58.6	56.2	59.5	60.8
Global	63.1	<b>62.7</b>	62.1	65.4	63.2	62.6	62.4	66.0

Source: Russell calculations based on data from Sustainalytics.

**European equity active managers – Summary**

From evaluating the distribution of active manager ESG exposures, we find that these portfolios are consistent with the relatively high ESG scores in the Europe region and are not negatively biased to ESG. As well, a material portion of the universe, most recently a slight majority, may be positively tilted toward ESG.

While we have not directly demonstrated that ESG is value-adding in active portfolios, using such information in active portfolios may be consistent with prudent active security selection. Our strongest assertion is that Russell’s focus on value-based analysis of ESG factors in portfolios is validated by this work.

**Summary**

**Observations**

This research represents Russell’s (and possibly the investment industry’s) first attempt to describe market indices and active manager universes in terms of ESG scores. Based on our analysis, we make several noteworthy observations:

- 1. Median and average ESG factor scores** for market indices and for manager positions have grown significantly over the last three years.
  - E, S, G and ESG scores are typically higher for cap-weighted indices than for equal weight indices suggesting large cap dominance.
- 2. Active managers in Russell’s European universes** exhibit high ESG scores that are consistent with the relatively high scores for the market. This behaviour is consistent with that of US equity and global ex-US equity managers.
  - Recently, a small majority of European active managers display positive ESG tilts.
- 3. There are regional differences** in ESG scores of markets and active manager portfolios, with Europe being a leader in the incorporation of ESG into the investment process.
  - The typical European ESG scores are between 62 and 76, while scores in other regions are typically lower.

<sup>10</sup> The same is true for ESG, E and S in the United States, ESG, S and G in Japan and E for Global indices.

<sup>11</sup> For this analysis we use the Russell Developed Europe Index for determining the capitalisation weighted index scores for Pan Europe.

---

## Implications for investors

The implication for investors is that they will need to pay more attention to the impact of ESG on their investment returns. Our observations indicate that ESG is a moving target and something that may be useful to monitor and evaluate.

The good news for investors who are concerned that ESG tilting might be value-eroding is that professional active managers, who are seeking to add value over a benchmark, do not seem to think so (i.e. ESG factors are likely consistent with the intent of adding long-term value through security selection). Moreover, there may be information in ESG scores that might assist active managers in the security selection process – information that they are not yet explicitly considering.

However, the varying importance of ESG factors across markets and manager behaviour means that investors cannot assume a 'one-size-fits-all' model will have a uniform impact globally. ESG scores differ by region and may be tied to differences in corporate culture and history. Investors need to understand the importance of each factor in each region to gain a better understanding of how ESG factors will influence their total portfolio.

That said, the influence of European investment practices may grow in impact as many investment firms are either Europe-based or have teams in Europe.

As an investment community, let's explore the data, learn more, and develop preferences and expectations as regards ESG tilts. They are pervasive and significant, and we should know more about them.

## RELATED READING

Pearce, Will, and Mike Clark (January 2011). "Integrating Environments, Social and Governance (ESG) issues: Russell's manager research and sustainable financial value," Russell Research.

Ross, Leola, Peiyuan Song and Will Pearce (July 2014). "Are ESG tilts consistent with value creation?" Russell Research.

Sarr, Mamdou-Abou (2014) "Insights on emerging markets ESG investing" Northern Trust, [northerntrust.com](http://northerntrust.com).

"The 21st century investor: Ceres blueprint for sustainable investing – summary report" (June 2013), Ceres.

"RI Europe 2013: the investor-corporate ESG summit," Responsible-investor.com.

"2012 Global Sustainable Investment Review," Global Sustainable Investment Alliance.

UNPRI (2014) *Report on Progress 2014* [http://www.unpri.org/viewer/?file=wp-content/uploads/2014\\_report\\_on\\_progress.pdf](http://www.unpri.org/viewer/?file=wp-content/uploads/2014_report_on_progress.pdf)

Churet, Cécile, (November 13, 2014) "Mind the gap between RI aspirations and current practices: Part two of an in-depth look into the results of the PRI Reporting & Assessment Framework," [http://www.responsible-investor.com/home/article/cc\\_2/](http://www.responsible-investor.com/home/article/cc_2/)

Financial Services Agency (September 2014)  
<http://www.fsa.go.jp/en/refer/councils/stewardship/>

## Appendix

### Data and methodology

Sustainalytics analyses and evaluates companies on ESG criteria using targeted, sector-specific ESG indicators. The sample period for Sustainalytics data starts in 2009Q3. For recent data, Sustainalytics covers roughly 4,400 companies globally.

Sustainalytics offers multiple scores for each specific E, S and G category; however, our main focus is the composite scores computed for E, S and G, as well as a total (aggregated) ESG score. Each indicator is assigned a score between 0 and 100, where 100 is a perfect score. Security-level scores for E, S, G and total ESG are calculated based on a weighted average of the underlying indicator scores.<sup>12</sup> To generate portfolio-level (index-level) ESG scores, we calculate a weighted average composite Sustainalytics score. Profile characteristics data for manager universes comes from Russell calculations. We generate portfolio- and index-level ESG scores from calculations of companies covered by Sustainalytics. Where the coverage is less than 100%, we gross them up. They are weighted according to the allocation in the portfolio or index, and subsequently normalised to the portfolio level.

### Analysis of European equity active manager behaviour – the detail

Our examination of indices revealed some important points for us to consider: ubiquitously high Governance scores in Europe, a clear capitalisation bias and increasing scores over time. From the broad representations of the large cap index, what securities are active managers selecting?

We know from our analysis above that ESG scores have a large cap bias. A typical way of evaluating tilts is to look at medians or averages across a universe. However, because of the influential role of capitalisation in ESG space, we want to evaluate those averages while taking the cap tilt into account. We separate out the ESG tilt from the cap tilt, using a very simple regression model:

$$\text{Equation (1)} \quad \widehat{ESG}_i = T + CE * \widehat{CAP}_i,$$

where

$\widehat{ESG}_i$  = the ESG score of active manager  $i$  less the ESG score of the index (or E, S, G),

$T$  = the “Modified Average Tilt” or the average active tilt which takes into account the cap effect (a regression intercept),

$CE$  = the average “Cap Effect” on the benchmark-relative ESG score (a regression coefficient), and

$\widehat{CAP}_i$  = the CAP weight of the active manager  $i$  less the CAP weight of the index.

We show the results of this regression in Exhibit A for the Pan Europe universe. For each date in our sample period, we show the cross-sectional Modified Average Tilt and the Cap Effect for the universe. When a Modified Average Tilt is positive, then the average manager has a positive ESG tilt. When a Cap Effect is positive, then the active manager's ESG score is positively affected by capitalisation. When Modified Average Tilt or Cap Effect is statistically significant, we display the regression coefficient in **orange and bold**.<sup>13</sup> We restrict this analysis to 2011Q3 through 2014Q3.<sup>14</sup>

Exhibit A illustrates very clearly the robust capitalisation bias in our ESG tilts. For all periods, Cap Effect has a positive and significant impact on ESG, E, S and G tilts. We expected this result, based on our observation of indices. What we could not have anticipated is that the Modified Average Tilts for all quarters are not significantly different from the relatively high cap-weighted benchmark scores in this region.

From this analysis, we conclude that European managers are aligned with the high European ESG scores. We note that these managers are seeking to add value above their benchmarks and, therefore, ESG tilts may very well be consistent with value creation in European equity portfolios. More specifically, we find that European active managers do not systematically tilt away from the high ESG scores in their region.

<sup>12</sup> Sustainalytics has a standard weighting scheme for each sector that is meant to reflect which criteria are most pertinent within each sector.

<sup>13</sup> We assign statistical significance at the 95% level.

<sup>14</sup> We use data starting in third quarter 2011 because Sustainalytics greatly expanded its coverage at that time and updated its methodology.

**Exhibit A: Modified Average ESG scores for active managers in Pan Europe Universe<sup>15</sup>**

DATE		ESG	E	S	G
9/30/2011	Modified Average Tilt	0.20	-0.01	0.45	0.08
	Cap Effect	<b>2.59</b>	<b>2.70</b>	<b>2.31</b>	<b>2.89</b>
12/31/2011	Modified Average Tilt	0.09	-0.08	0.39	-0.17
	Cap Effect	<b>2.43</b>	<b>2.65</b>	<b>2.22</b>	<b>2.55</b>
3/31/2012	Modified Average Tilt	-0.01	-0.02	0.15	-0.30
	Cap Effect	<b>2.45</b>	<b>2.68</b>	<b>2.16</b>	<b>2.57</b>
6/30/2012	Modified Average Tilt	-0.09	<b>-0.13</b>	0.12	-0.46
	Cap Effect	<b>2.93</b>	<b>3.10</b>	<b>2.69</b>	<b>3.01</b>
9/30/2012	Modified Average Tilt	-0.28	-0.55	0.07	-0.50
	Cap Effect	<b>2.93</b>	<b>3.37</b>	<b>2.64</b>	<b>2.89</b>
12/31/2012	Modified Average Tilt	-0.16	-0.34	0.18	-0.53
	Cap Effect	<b>3.09</b>	<b>3.79</b>	<b>2.77</b>	<b>2.73</b>
3/31/2013	Modified Average Tilt	-0.32	-0.35	-0.10	<b>-0.71</b>
	Cap Effect	<b>3.04</b>	<b>3.88</b>	<b>2.76</b>	<b>2.41</b>
6/30/2013	Modified Average Tilt	-0.37	-0.33	-0.20	<b>-0.75</b>
	Cap Effect	<b>2.81</b>	<b>3.81</b>	<b>2.53</b>	<b>2.02</b>
9/30/2013	Modified Average Tilt	-0.24	-0.04	-0.16	<b>-0.66</b>
	Cap Effect	<b>2.80</b>	<b>4.12</b>	<b>2.50</b>	<b>1.66</b>
12/31/2013	Modified Average Tilt	0.04	0.23	0.01	-0.10
	Cap Effect	<b>2.71</b>	<b>4.01</b>	<b>2.39</b>	<b>1.74</b>
3/31/2014	Modified Average Tilt	-0.36	-0.29	-0.31	-0.40
	Cap Effect	<b>2.62</b>	<b>3.62</b>	<b>2.47</b>	<b>1.79</b>
6/30/2014	Modified Average Tilt	-0.18	0.02	-0.39	-0.07
	Cap Effect	<b>2.39</b>	<b>3.37</b>	<b>2.03</b>	<b>1.86</b>

*Ultimately, as active equity managers in Europe seek to add long-term value their portfolios are consistent with the positive ESG tilt of the region.*

**Important information**

This material is not intended for distribution to retail clients. This material does not constitute an offer or invitation to anyone in any jurisdiction to invest in any Russell product or use any Russell services where such offer or invitation is not lawful, or in which the person making such offer or invitation is not qualified to do so, nor has it been prepared in connection with any such offer or invitation.

Unless otherwise specified, Russell Investments is the source of all data. All information contained in this material is current at the time of issue and, to the best of our knowledge, accurate. Any opinion expressed is that of Russell Investments, is not a statement of fact, is subject to change and, unless it relates to a specified investment, does not constitute the regulated activity of "advising on investments" for the purposes of the Financial Services and Markets Act 2000 within the UK, nor the regulated activity of "advising on financial products or credit" for the purposes of the Regulatory Law 2004 under Dubai law.

The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Any forecast, projection or target is indicative only and not guaranteed in any way. Any past performance figures are not necessarily a guide to future performance. Any reference to returns linked to currencies may increase or decrease as a result of currency fluctuations. Any references to tax treatments depend on the circumstances of the individual client and may be subject to change in the future.

Excess returns: Each product is compared to the relevant Russell assigned benchmark and universe to determine product level excess returns for each quarter. All product level quarterly excess returns are compound excess returns. Product level quarterly excess returns are then averaged across all products to determine an average quarterly excess return. The average quarterly excess returns are then annualized to determine the 3 year annualised rolling excess returns. If the annualised average excess return is greater than zero, then the product is considered to have outperformed over that time period. Note: Benchmarks are total return (they include the reinvestment of dividends) and cannot be invested in directly.

Representation: No client of Russell Investments has been able to achieve the represented performance due to the fact that the universes are comprehensive composites that cannot be invested in directly. The universes in Russell's research database that are used in this material cannot be purchased or held by any client. These manager products are available for our consulting clients and internal portfolio managers to use in the construction of portfolios for our fund and separate account clients.

Issued by Russell Investments Limited. Company No. 02086230. Registered in England and Wales with registered office at: Rex House, 10 Regent Street, London SW1Y 4PE. Telephone 020 7024 6000. Authorised and regulated by the Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS. Russell Investments Limited is regulated in the United Arab Emirates by the Dubai Services Authority as a Representative Office at: Office 28, Level 3, Building 10, Gate Village, DIFC, PO BOX 125115, Dubai UAE. Telephone +971 4 401 9595.

First used: January, 2015; EMEA – 0876; MCI-2014-12-29-0454

<sup>15</sup> For this analysis, we use each fund's capitalisation weight relative to the MSCI Europe Index.

## **Bijlage – Proxy Voting and Engagement Report 2017**

---