



# Breakout Session A

## Equities: ESG scoring and impact

**Frontier annual conference 2022**



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# Discussion

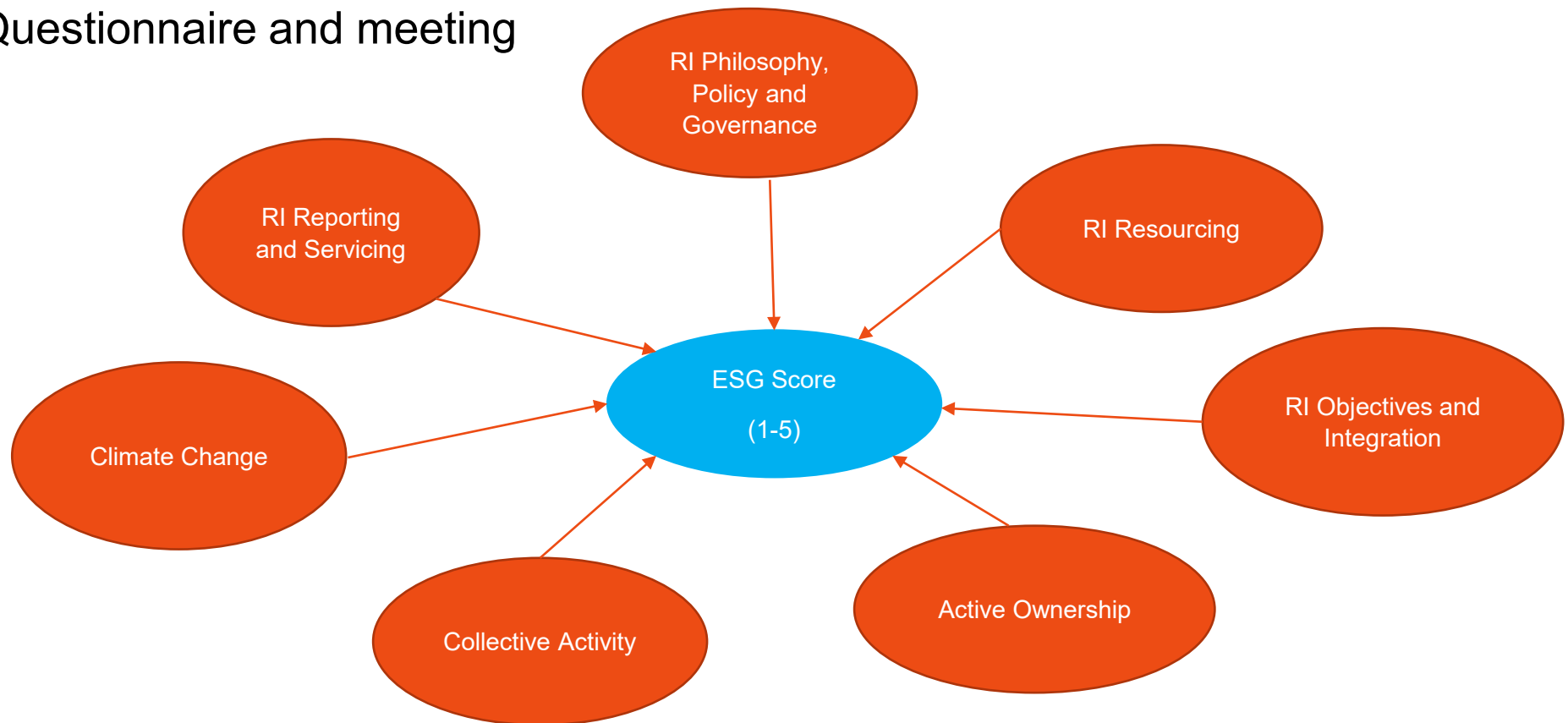
## Evolution in Frontier's assessment of ESG

- Introduction
- Frontier's Manager ESG Assessment Toolkit
- The results
- Summary
- Key takeaways

# Frontier's ESG assessment toolkit

## The process and scoring framework

- Applied to all managers
- Questionnaire and meeting



# The results

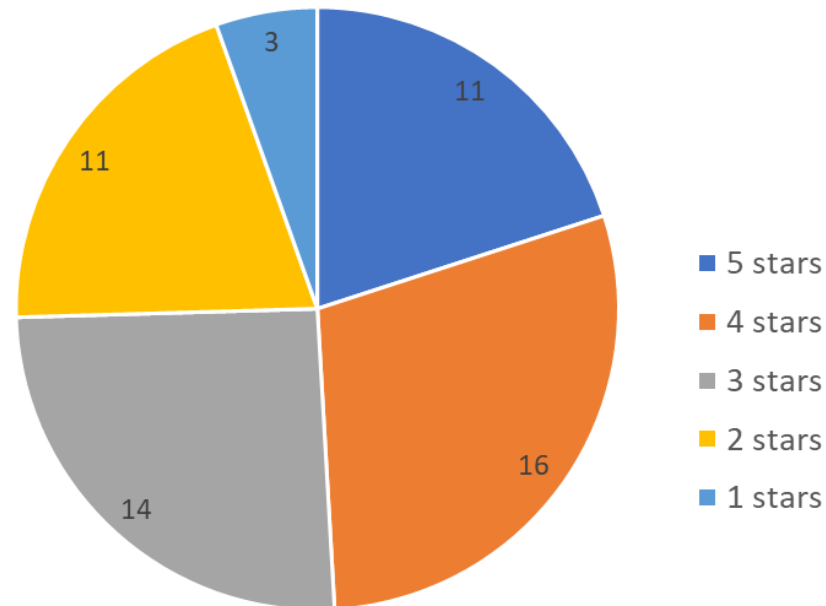
## Frontier's bias to responsible investment

- Long-held stance on importance of responsible investment;
- Member of the Net Zero Investment Consultant Initiative (NZICI) as well as other working groups in Australia (PRI, IGCC and RIAA);
- Given these beliefs in RI, it has likely exhibited a positive skew towards managers with better than average credentials.

# The results

## Summary of ratings

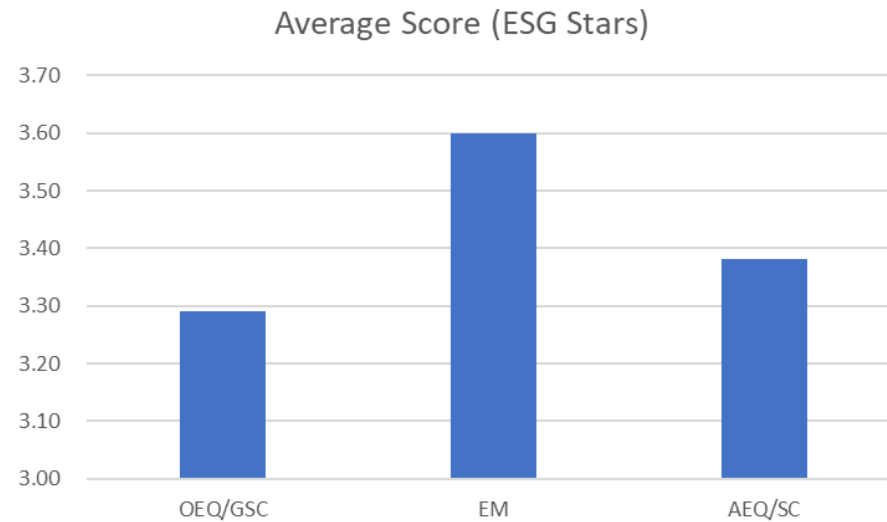
- Managers scored across the full (1-5) ESG star spectrum
- 55 equities products rated – 24 global equities, 10 EM equities and 21 Australian equities



# The results

## Breakdown by sector

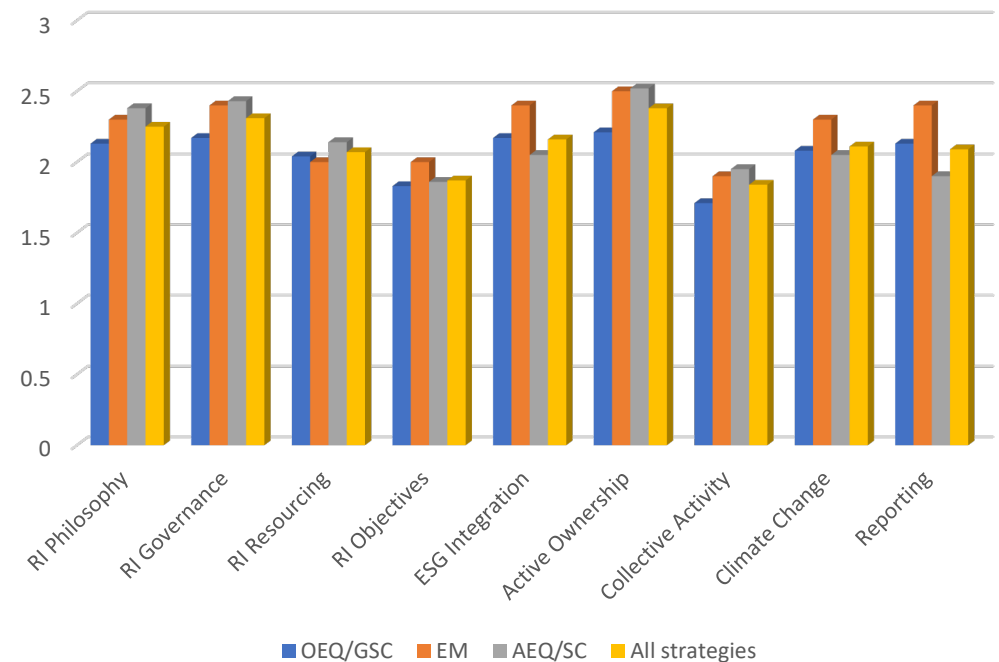
- Average scores were greater than an 'average' of 3.0 (overall average was 3.38)
- Emerging markets score the highest
- Within global and Australian equities, small cap managers scored below the average (2.0 and 2.7 respectively)



# The results

## Breakdown by category

- Across the nine categories, using the 1-3 points system, seven achieved an average score above 2;
  - RI objectives and collective activity scored below 2
- Frontier reflections
  - Assessing vs. peer average
  - Weaker areas to improve



# Summary

## The key observations

- Active engagement is the strongest area of ESG incorporation.
- Collective activity is where managers need to advance the most.
- Frontier's recommended equities managers scored 3.38 ESG stars on average, above the broader investment manager community.
- Given Frontier's beliefs in RI, it has likely exhibited a positive skew towards managers with better than average credentials.
- Small caps managers scored notably lower than broad-cap peers.
- Emerging markets managers scored higher than Australian and global equities managers – this seems driven by Frontier's preference with EM managers



# Key takeaways

## For clients in conjunction with Frontier

- Most asset owners will have some managers that need constant reminding to dedicate greater effort to advance their ESG efforts or run the risk of being terminated in favour of a competitor with a higher ESG rating.
- Small caps managers (both domestically and globally) should be challenged to keep improving as other equities sub-asset classes are more advanced.
- Passive managers are equally important in terms of their ESG assessment and clients should be holding their passive managers to account with regards to ESG incorporation.
- Collective activity is an area where equities managers can be doing more.
- ESG and climate-related reporting has improved in recent years but can be further improved.

# Key takeaways

## What is Frontier doing?

- We are evolving our ESG process with market development and with the evolution of clients.
- Collaborating with different working groups.
- We want to make sure there is no greenwashing. Data and disclosure is more prominent.
- Progress on the net-zero commitment.
- Continue to improve our engagement approach with managers.
- Enhancing the data collection and assessment process.



# Thank you for joining us.

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