

Equities: ESG scoring and impact

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Fund managers bolster ESG credentials but still room for improvement

Fund managers have strengthened their focus on ESG but small cap managers can still lift their game, according to Frontier Advisors research.

Frontier has so far surveyed 55 equity products and awarded them an average score of 3.38 stars out of 5. Frontier's Head of Equities, Fraser Murray, said this positive result may also reflect Frontier's fund manager selection.

"That is really a reflection of Frontier's values coming through – we believe, as a firm, that ESG actually makes a positive difference to investment portfolios," he said.

Several managers who posted low ESG scores have plans to bolster their responsible investment philosophy and ESG research and integration (which was not included in Frontier's scoring). Many of these fund managers have realised it is now a core component of doing business.

"They've realised after a period of time that they're fighting a losing battle and they're actually compromising their ability to win business. So they've come to the game late."

Fund managers were best at actively engaging with companies but weakest on collective action. Murray said fund managers could work together if a company initially ignored their ESG concerns.

"One of the things we've been disappointed by with fund managers is the number of times we've heard, 'We've talked to the company about this but we own half or one per cent of the shares so they don't really listen to us.'

"And we've responded to that by asking, 'Have you contacted the largest shareholders on the register to see if they're like-minded around the issue and then along with you and maybe four or five investors you might be able to get together to co-write a letter to the company?'"

Emerging markets managers posted the highest average ESG score while small cap managers posted the average worst score.

"We couldn't cut them slack just because they were smaller and said we don't have the resources to do this. They're all making plenty of money, they're all profitable, they can go and hire somebody and do a better job of it," Murray said.

Frontier Advisors Senior Consultant, Simone Gavin, said it was initially a surprise that emerging market managers performed so well.

"This seems a little counterintuitive at first because that's where a lot of ESG risks lie. But on reflection, it's probably our awareness of those ESG risks and wanting to ensure there's a really high bar set by these managers and the products that we are recommending to clients."

Frontier said most asset owners will have some managers that need constant reminding to invest more in their ESG processes. Fund managers also tend to only supply ESG reporting in response to client demand.

Gavin said, "if I was a client, I'm not sure I'd know exactly what I should be asking for. So we're really trying to get fund managers to turn this around the other way and to think what would be useful information for clients to receive as reporting?"

The Frontier ESG assessment of managers paper can be found [here](#).