

ESG Integration

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ASIA RESPONSIBLE INVESTING FORUM

INTEGRATING ESG INTO INVESTMENT DUE DILIGENCE

archit^{as}



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SPECTRUM OF INVESTMENT

OVERLAP IN APPROACHES ARE POSSIBLE AT FIRM AND FUND LEVEL



HOW TO MAKE THE CHOICE?

THE BIGGEST CHALLENGE

ESG: Greenwashing under scrutiny

BY SUSANNA RUST | JULY/AUGUST 2019 (MAGAZINE)



Key points

- Greenwashing is understood as making misleading claims about environmental practices, performance or products
- An aim of the European Commission's sustainable finance action plan is to prevent greenwashing, mainly with retro
- Language is an issue: ESG and green in

How to spot greenwashing

This article is part of
[Guide to responsible investing](#)



Sustainable finance, or just plain greenwashing?

9 January 2020

It's plastered everywhere and purportedly built into everything. It's sustainability, the buzzword that has taken hold in every corner of society and sector of business. Within asset management, too, sustainable finance is gaining in significance. More and more high-net-worth clients are becoming interested in investments that can be made in good conscience because they are economically, ecologically and socially sustainable. Banks have recognised this demand and developed investment strategies to meet it. But is every product marked "sustainable finance" worthy of the label?

Sustainable Investing

Opinion: For ESG investors, the newest challenge is separating fact from 'greenwashing'

Published: Oct. 15, 2019 at 9:41 a.m. ET

By Meredith Jones

How much is corporate talk of ESG principles just marketing?



FUND ESG ASSESSMENT

3 AREAS OF FOCUS



FUND LABELLERS

More than 10 specialized labels in Europe

A lack of standardization across ESG label / Green labels, Terminology and various ESG requirements such as; exclusion, eligibility threshold, holistic approach / “point system” approach to name a few.

Less than 1% of assets are labelled or 500 financial products (out of 60,000 funds)

Need for a framework harmonization



THIRD PARTY SERVICING

Morningstar Sustainability Rating



Mercer (not publicly available)

Real Impact Tracker (US, Certified Community)



REGULATOR / GOVERNMENT

France (2015, SRI Label and Greenfin label)

Hong Kong (2020, Green/Sustainable label)

Europe (2021, SFDR)

Singapore (2022)



UNPRI SIGNATORY

Architas UK became a UNPRI signatory in May 2018 and is committed to following the six principles for responsible investment and incorporating ESG best practice. In July 2019, Architas received an A rating for Strategy and Governance in its first Assessment report covering activities in 2018.



AXA GROUP EXCLUSIONS POLICY

Architas requires the exclusion of certain companies in mandates where it controls the investment management agreement. The list of excluded companies is defined by AXA Group RIC and includes guidelines on controversial weapons, palm oil, coal, oil sands and tobacco sectors.



ESG QUALITATIVE ASSESSMENT

In order to incorporate ESG considerations into the fund selection and monitoring process, a qualitative assessment was conducted of the investible universe across all guided list funds through the ESG Due Diligence process, covered in more detail on the following slides.



ESG QUANTITATIVE SCORING

Architas is leveraging AXA IM ESG quantitative scoring methodology which analyses how companies are facing ESG risks and opportunities. Each fund is scored between 0 and 10, based on underlying holdings, and these scores are aggregated at the UL offer level.

ARCHITAS BUY LIST

ESG QUALITATIVE ASSESSMENT

OUR INVESTMENT PROCESS



MANAGER PRE-
SELECTION



MANAGER SELECTION
WITH ESG INTEGRATION



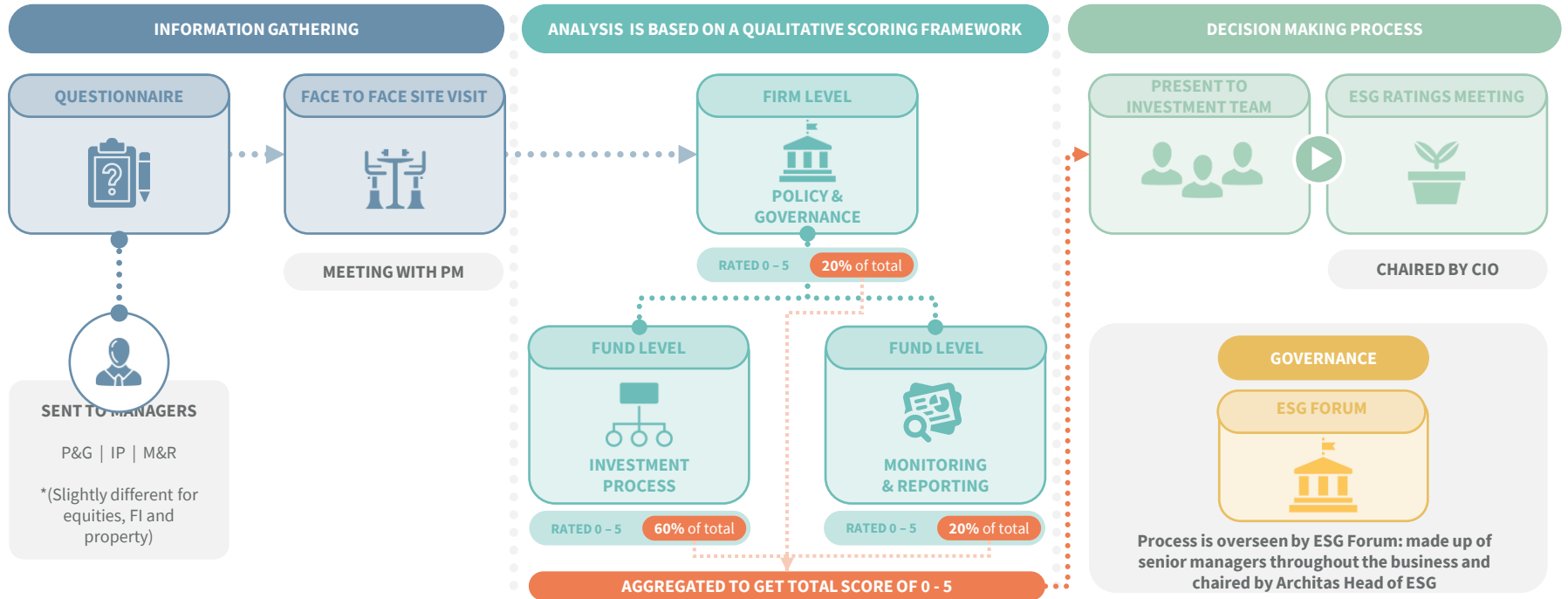
PORTFOLIO
CONSTRUCTION



MONITORING AND RISK
MANAGEMENT

ESG DUE DILIGENCE PROCESS

OUR APPROACH



ARCHITAS QUALITATIVE SCORING FRAMEWORK

HOW TO INTERPRET ESG DUE DILIGENCE SCORES

FUND ESG CREDENTIALS

Poor

Below Average

Average

Good

Excellent

OVERALL ESG SCORE

0-1

1-2

2-3

3-4

4-5

RI QUALITATIVE OPINION

ESG factors not considered in investment process. No responsible investment oversight and/or monitoring and reporting of ESG issues severely lacking.

Evidence that ESG inputs are used during investment process, however no attempt made to assess relativity or materiality. Limited responsible investment oversight and/or monitoring and reporting of ESG issues lacking.

ESG considerations are incorporated in some investment cases, however this is done in an ad-hoc manner. Responsible investment oversight and/or monitoring and reporting of ESG issues is apparent but not consistent.

ESG analysis integrated in investment process in a systematic manner. Effective responsible investment oversight and/or consistent monitoring and reporting. Engagement and voting efforts are in line with RI philosophy.

ESG analysis is integral to investment decision making. Responsible investment oversight reflects best practice and/or demonstrates innovative approaches to monitoring and reporting. Industry leading engagement and voting efforts.

ESG SCORING GRID

SUMMARY TABLE TO BE INCLUDED IN RECOMMENDATION NOTE

ESG Assessment Indicator	Scoring Rationale	Score
Policy & Governance	<ul style="list-style-type: none"> Performed well in UNPRI assessments in 2018 and 2019, receiving an A+ for strategy and governance. Firm has ESG investment policy that describes how ESG considerations apply across all funds however this is mainly focussed on ESG labelled funds Active participant in 7 collaborative engagements/investor initiatives ESG leadership team lacks performance metrics Dedicated ESG resource is limited to 3 people 	3
Investment Process	<ul style="list-style-type: none"> ESG exclusions are limited to UNGC rules which are fairly standard business norms, these are inputted into the universe construction constraint using RepRisk data ESG considerations are embedded into research notes, with analysts well versed on material issues for their sectors. Proprietary ESG scores are considered alongside fundamental valuations, although incorporation into internal ratings and recommendations is ad-hoc in nature Hard to determine the impact of ESG scores in investment decision making Engagement and progress monitoring is available at the individual security level 	2
Monitoring & Reporting	<ul style="list-style-type: none"> ESG analytics tools act as a database for individual securities, however these are not monitored at the portfolio level Portfolio compliance and risk management are able to monitor UNGC violations in the business screen tool (METRO), which also uses MSCI data for controversies alerts There are a few examples of holdings being assessed against SDGs, although this is not systematic 	1
Overall	Good policy and governance score, however investment process lacks ESG input in security selection and portfolio construction stages. Monitoring and reporting has plenty of room for improvement.	2

GROUP UNIT-LINKED

NEW FUND ON-BOARDING ESG QUALITATIVE ASSESSMENT

GROUP UNIT-LINKED ESG

NEW FUND ONBOARDING (OVERSIGHT)

STANDARD INVESTMENT DUE DILIGENCE (Prop. channels/Core Offers)

ESG Assessment Indicator	Scoring Rationale	Score
Policy and Governance	Firm has good policy and governance in place. Active in some industry initiatives (PRIWG)	4
Investment Process	ESG has a thorough integration in the fund's investment process (stock selection and portfolio construction). Note that it has only been formally in place for 1 year.	4.3
	Effective use of Proxy voting to engage with companies	
Monitoring and Reporting	Fund has good ESG reporting to client, however still has potential development in risk management integration, physical climate risk, low-carbon transition risk and global development issue.	2.6
Overall		3.9

Fund scores 3.9 out of 5, indicating overall fine ESG integration in investment process.

INVESTMENT CHECK LIST (Wealth/3rd party channels)

ESG Checklist	Please complete	Amber flag	Red Flag
Is Asset Management Company a signatory to UNPRI?	If yes, please share latest assessment report.	Below median strategy and governance score	Not signatory
Does organisation have an RI policy?	If yes, please share.		No RI policy
Does fund incorporate ESG considerations in the investment process?	If yes, please evidence. Is this referenced in standard DDQ?		No evidence
Are fund level ESG KPIs available that can be reported on a regular basis for this fund? If yes, please share.	If yes, please share.		

GROUP UNIT-LINKED

IN FORCE QUANTITATIVE SCORING

GROUP UNIT-LINKED ESG

IN FORCE



OBJECTIVE

Provide ESG scoring on UL offers for sale in Europe and Asia.

Participate to the definition of ESG target for UL business.



AMBITION

Scoring will be used internally within AXA to track local entities progress in terms of ESG integration VS. internal target of 5.6 agreed at the RIC.



METHODOLOGY

Holdings based ESG quantitative fund scoring.

Score the entire inforce, focusing on funds with AuM above 5m€ (60% of AuM covered).

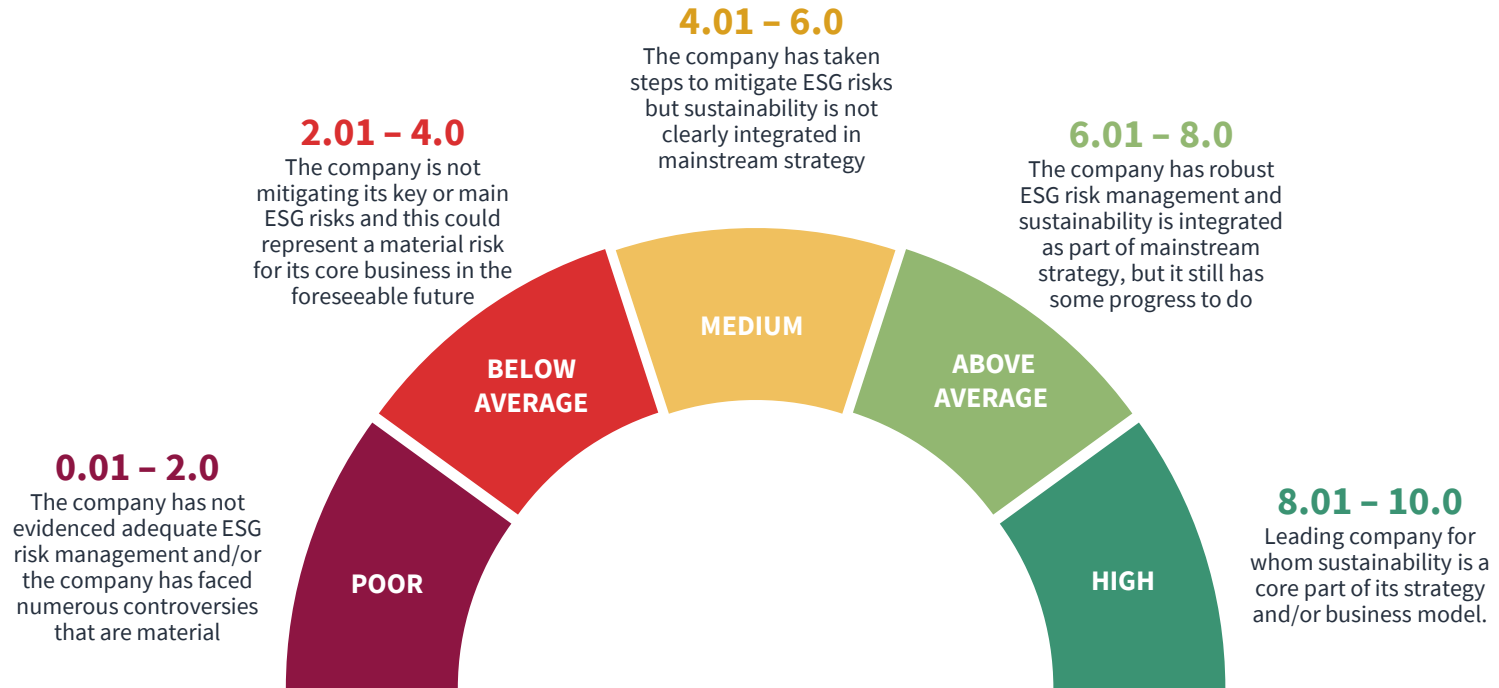
First scoring exercise of 2019 has been finalized for Europe.

ESG QUANTITATIVE SCORING

PROCESS

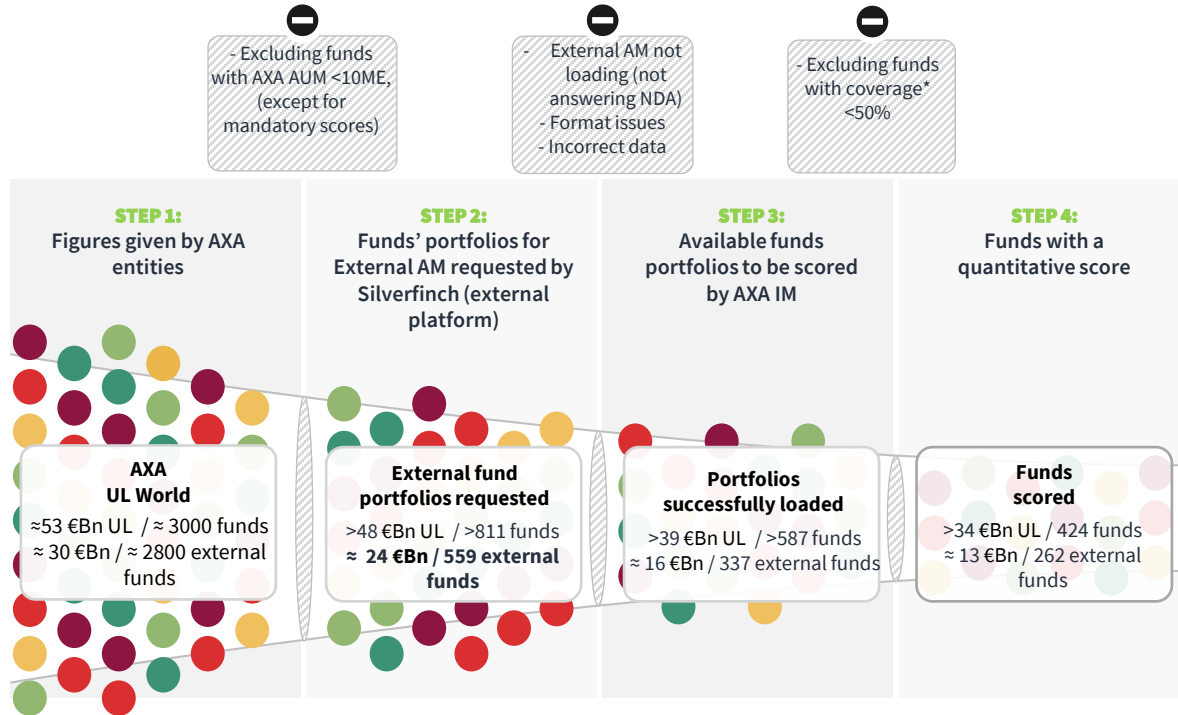


SCORING EXPLANATION



COVERAGE AXA EUROPE

Once all UL AUM from AXA entities has been centralised and overlaps removed, the process will follow several steps:







At the end of the process, **64% total UL AUM** and **14% total number of funds** get a quantitative score

ROAD MAP

ARCHITAS LEVEL - ESG SCORING ROADMAP

2024 AMBITION

	BY THE END OF 2021		2022-2024	
	 MONITORING	 TARGET	 MONITORING	 TARGET
ALL ARCHITAS SOLUTIONS 1	Qualitative scoring of 100% of offers		Qualitative scoring of 100% of offers	Exclusion of funds below a score of 2/5
O/W THEMATIC OFFERS	Strategic KPI ³ • Carbon intensity (climate action) • Gender diversity		Strategic KPI ³ • Carbon intensity (climate action) • Gender diversity • Water intensity • UNCG breach • Specific themes	
O/W SUSTAINABLE OFFERS 2				

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