

BSR, 2008. *Environmental, Social and Governance: Moving to Mainstream Investing?*
UKSIF summary, 2009.

Table of Contents

I. Key points.....	1
II. Key quotes.....	2
III. Best practices	2

I. Key points

- There is no standardized approach to integrate ESG into mainstream investment, as shown by:
 - Financial institutions are developing different ways of evaluating ESG criteria
 - Companies are differentiating themselves based on their methodology of integration
- ESG criteria are still not fully integrated into routine evaluation process. However, the incorporation of ESG criteria has significantly increased in the past few years.
- The barriers to evaluate whether ESG criteria add value to investments include lack of long-term data, inconsistent methodologies to incorporate ESG criteria and other variables.
- Barriers to incorporate ESG criteria successfully:
 - Need of extensive research to substantiate the link between sustainability and financial performance.
 - Possible solutions: continuing research by academics and investors
 - There is lack of consistent data in the reports that companies are publishing.
 - Potential solutions: require companies to report through regulation and investor pressure (uniform data)
 - Conflict between short-termism of shareholder demands and long-termism of ESG investments
 - Potential solutions: developing partnerships and creating long term value
 - Young analysts are not prepared to consider ESG criteria into investment analysis

- Potential solutions: integrating ESG issues into educational forums (core teachings, textbooks in MA and finance degrees, CFA exam); training investment professionals, hiring specialists and purchasing ESG data.
- Cynicism towards the topic
 - Potential solutions: discussing, including the topic into mainstream venues, use the term extra-financial

II. Key quotes

- “...there is not a standardized approach to integrating ESG criteria into mainstream investing practices” (BSR 2008, p. 6).
- “most mainstream investors are still trying to assess the added value of including ESG criteria in the fundamental investment model” (BSR 2008, p. 7).
- “...it is important to note that some investors do not believe that the reporting standards of the GRI are robust enough for their assessments” (BSR 2008, p. 12).
- “Bain and Company calculated that in the 1980s the average holding period for a stock was approximately five years. Today it is less than one year. This can be observed by looking at the annual turnover on the NYSE, which is about 100 percent” (BSR 2008, p. 12).
- “...young analysts are typically uninformed on many environmental, social and governance issues, and cynical about their materiality” (UNEP FI 2004 in BSR 2008, p. 14).

III. Best practices

- “These three companies (Citigroup, JP Morgan Chase and Morgan Stanley) reported that they will require utilities seeking financing for coal-fired power plants to prove that the plants will be economically viable under potentially stringent caps on CO2 emissions” (BSR 2008, p. 6).
- Frameworks for assessing the impact of ESG incorporation on returns:
 - Smith Barney: Sustainable Investment Themes
 - Goldman Sachs: Introducing GS Sustain
 - Sustainability Asset Management: Questionnaire to design Dow Jones Sustainability Index
 - Standard & Poor’s: S&P ESG Index Fund Index Methodology
- “Generation Investment and SAM are trying to influence a shift to long-term focus from outside the mainstream investment houses” (BSR 2008, p. 13).