

ESG Data Management Working Group

Abridged minutes from Q2 2022 Asset Management Working Group - *Strategic Consensus (internal processes, procedures, and controls)*



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Objective

Understand what data the industry needs, and the benchmarks and frameworks needed to analyse and standardise it.

Positioning Statement

The consensus among the participants was that most asset managers have already implemented ESG Data infrastructure and processes, and they are ingesting and distributing ESG data to multiple stakeholders in the organisation.

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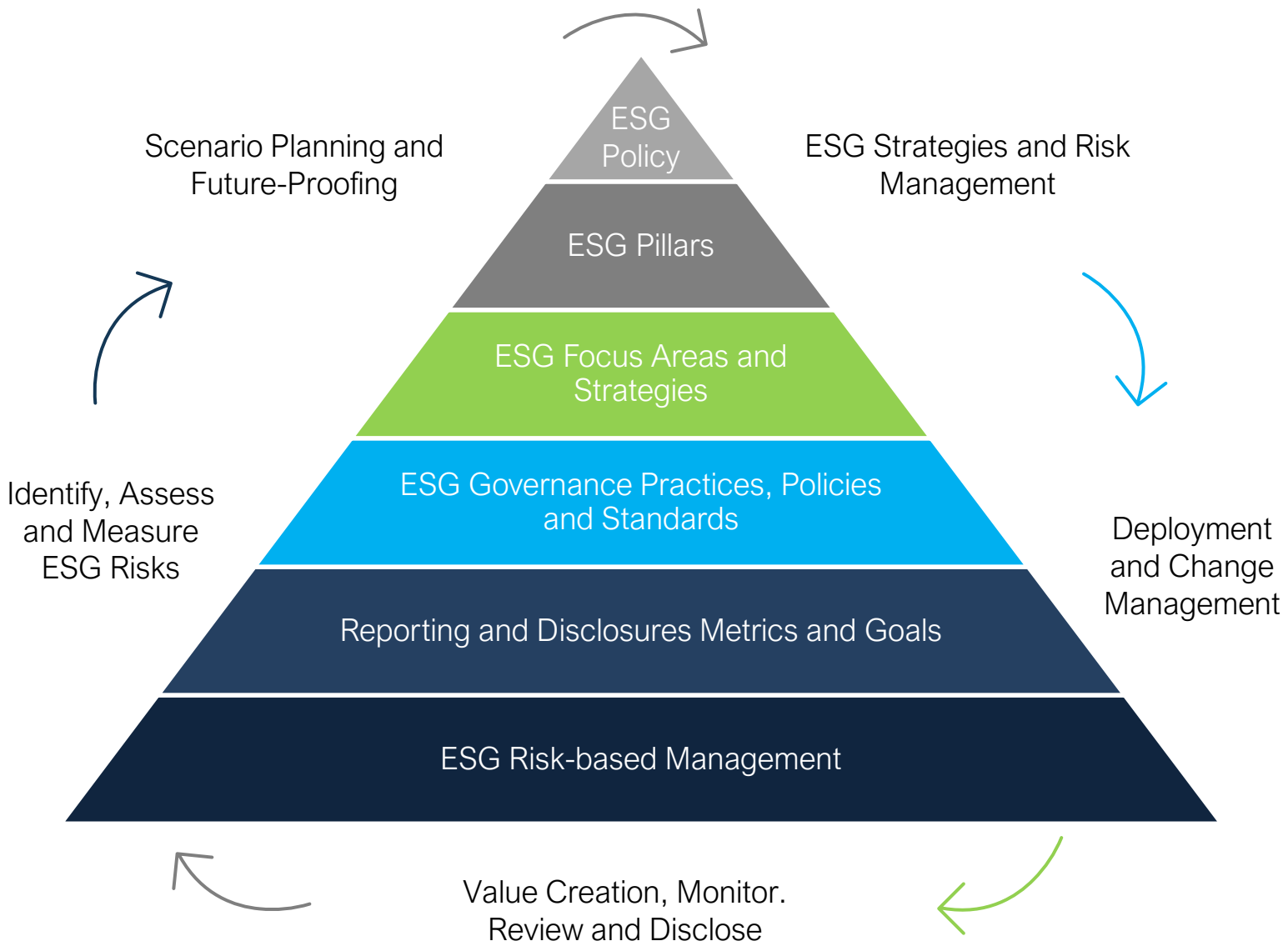
ESG Data Management Challenges

Asset managers face many challenges in effectively sourcing, managing, and leveraging ESG data to support the investment process and other stakeholder needs.

- **Coverage** – Many asset classes still lack sufficient coverage to use ESG data in investment decisions.
- **Standards** – Multiple industry frameworks exist for reporting ESG data and there is no materiality standard.
- **Quality** – Inconsistent quality and context in ESG data and metrics require significant analysis and assessment activity to produce an appropriate outcome.
- **Provider Complexity** – The number of available ESG data vendors requires organisations to engage in multiple sources and often arbitrate across them.
- **Integration** – ESG data does not exist in isolation and needs to be integrated into multiple internal systems, including portfolio management, reference data, and analytic environments.
- **Governance** – Stakeholders of ESG data need assurances that the data can be trusted, is of the right quality and is suitable for the task.



Ongoing Management of ESG Data



Stakeholders

Investment community	Rating agencies
Customers	Regulators
Suppliers	Consumers
Government	Employees
Society	NGOs

Standards

GRI	SDG
GRESB	SASB
IIRC	CDP
SFDR	SBTi/WRI
UNGC	WEF/WBCSD
NSE Disclosure	TCFD
IFCM PRI, UNEP FI, OECD etc.	

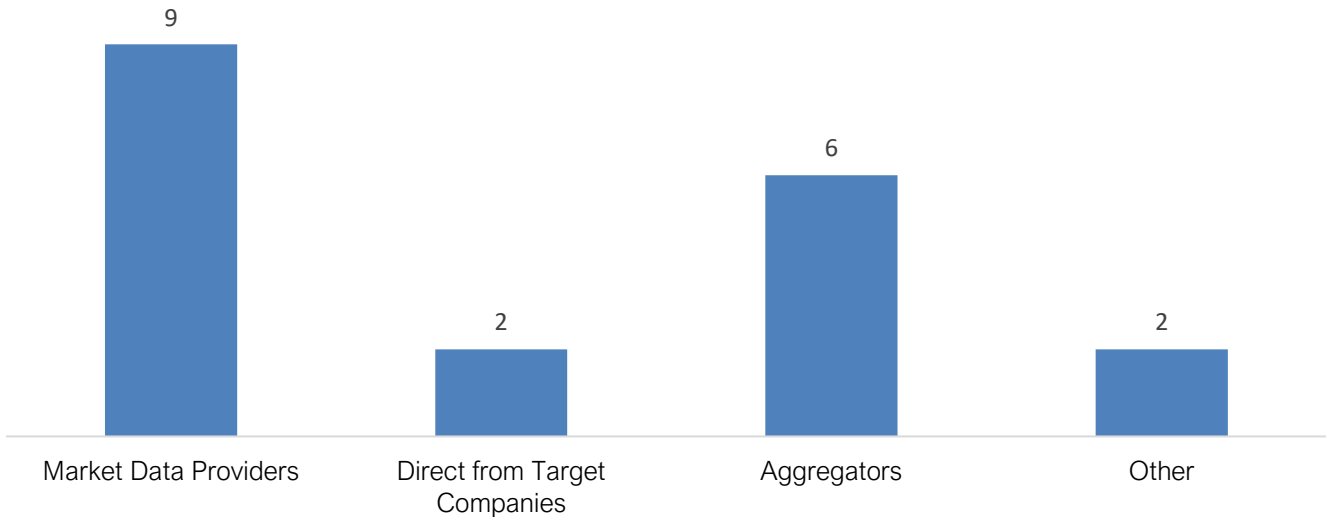
Issues Identified:

- **Data Coverage and Quality** – There are still many gaps in the coverage and quality of ESG data. Portfolio managers often do not agree with what is being reported by the market data providers and aggregators. Firms that conduct primary research have better knowledge about target companies in their portfolios. Firms need a process to manage the conflict and disputes between portfolio managers, research analysts, and the acquired data.
- **Investor and Client Education** – Many clients are asking for ESG information from asset managers such as exclusion lists, but really do not understand why they are asking or how that information is going to be used to make an investment decision. Clients need to be educated on the end-to-end ESG story, the nature and type of available data, and how asset managers leverage that data in their investment process.
- **Lack of and Variability in ESG Standards** – Most asset managers are global organisations that face off to multiple jurisdictions and regulators, many of which have their own standards for ESG data. There are also many different independent standards.
- **Greenwashing** – The number of incidents is growing where asset managers are being accused of greenwashing is increasing causing significant disruption to the implicated firms. Although ESMA has released recent advice on how to combat greenwashing, key details of the Sustainable Finance Disclosure Regulation (SFDR) have yet to be released. 273 asset managers have signed up to the Net Zero Asset Managers initiative, an industry coalition. US regulators, including the SEC, have yet to agreement on their approach to ESG and there is significant concern that asset managers will cherry pick the ESG data that most supports that investment thesis making it difficult to truly ESG impact on a portfolio or investment.
- **Cost and Complexity** – Market data costs as a percentage of revenue are increasing for asset managers and the range of available ESG products and solutions is proliferating. Larger firms have more financial capacity to build and operate sophisticated in-house solutions, with smaller unable to match investment. A potential gap could emerge between managers that can more effectively use ESG data to create differentiated offerings.

Survey Results

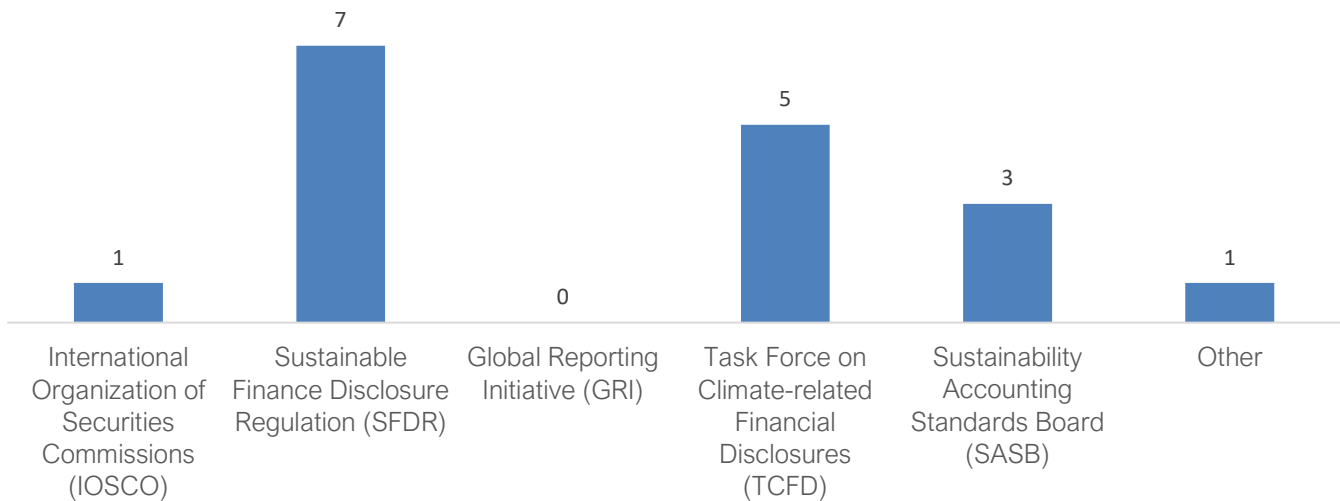
We executed a survey during the forum discussion to capture the perspective of the forum attendees on specific ESG data related topics.

Where are you acquiring for ESG data from?



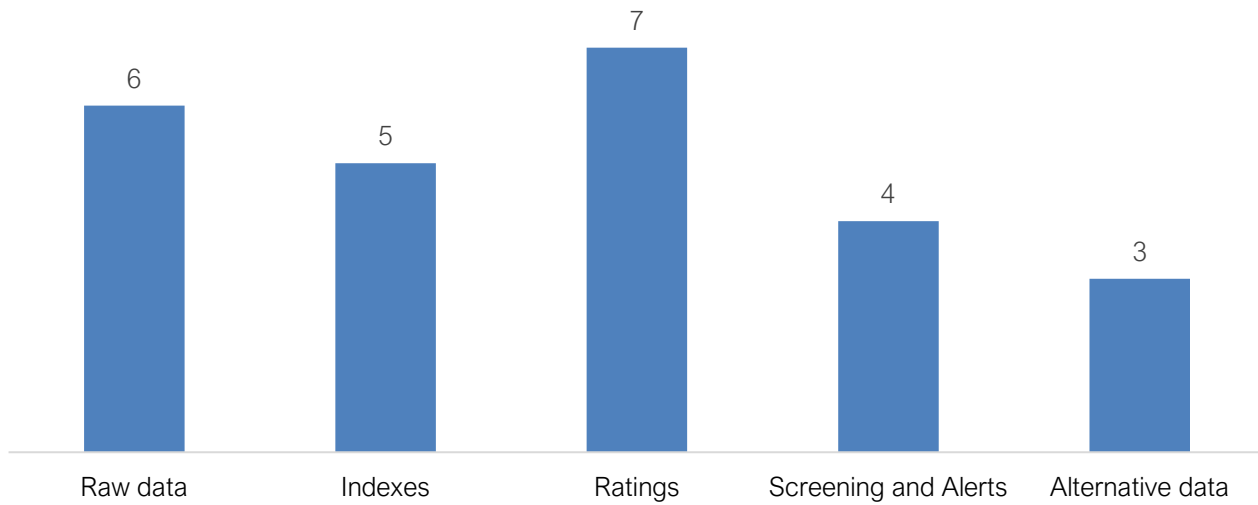
Market data providers are dominating the space for ESG data, and this impacts the data flows, engineering, and governance frameworks necessary to effectively ingest and manage the data. Many of the offerings are batch-driven and update at a slow or inconsistent cadence. It is often not clear when the data is being refreshed. Many niche players in the sustainable finance space and more work is needed to establish the data quality standards the providers need to abide to get better data.

Which ESG standards are you focused on or paying attention to?



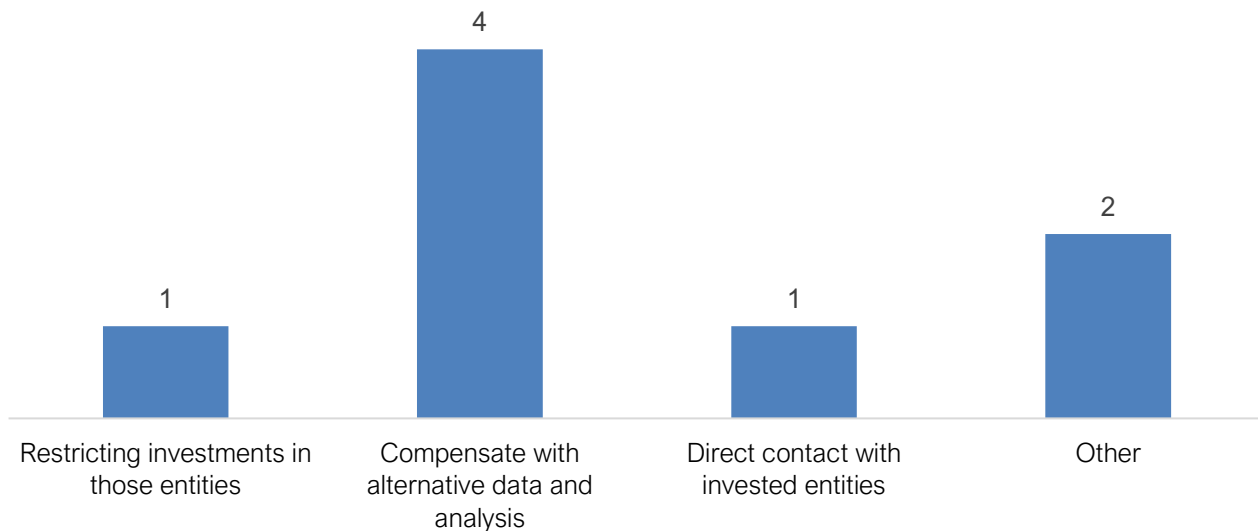
SFDR, TCFD are key focus areas for larger asset managers.

What types of ESG data are you consuming?



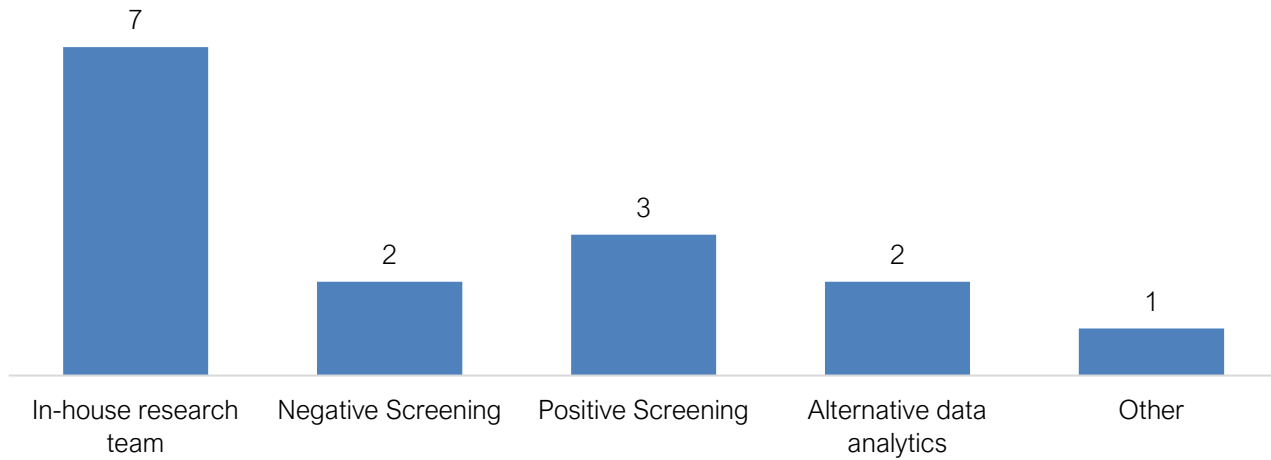
Most asset managers are consuming a combination of raw data and curated data published by the providers and aggregators.

How are you managing gaps in the availability of ESG data?



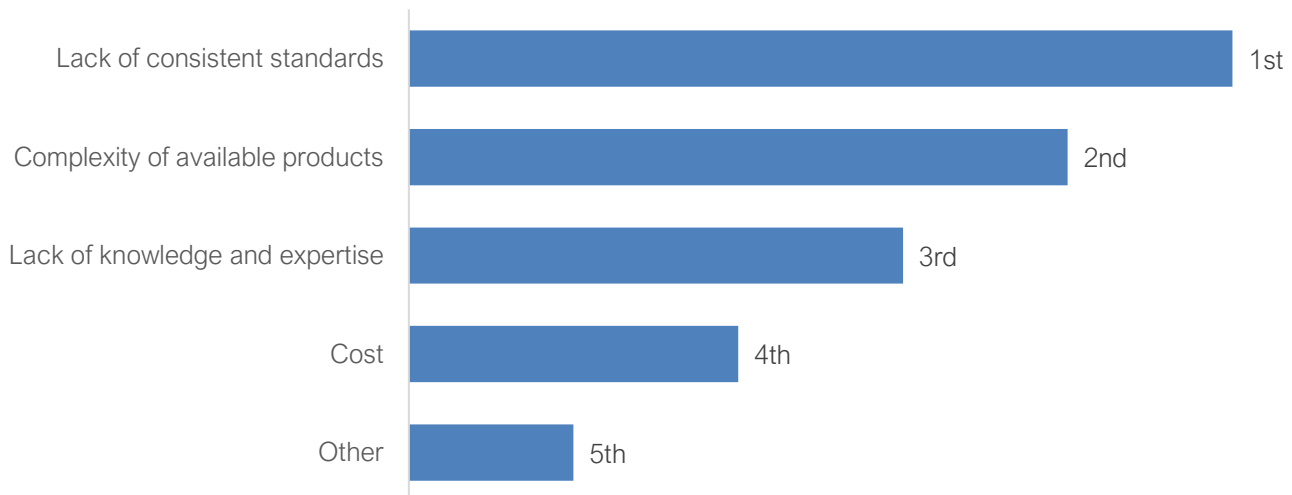
For many asset managers, equity analysts are created proprietary research models that incorporate ESG data and when gaps exist in the data, they are leverage alternative data points to support their analysis and investment decisions. This highlights an important issue with coverage and availability of ESG data as the regulators often fail to recognise that gaps in coverage need to be addressed so that managers can continue to make investment decisions.

How are you assessing ESG data and applying it to the investment process?



All the asset manager participants in the survey indicated that they are leveraging in-house research teams to process and apply ESG to the investment process. Most firms rely on fundamental research capabilities to support their investment decisions. Some firms have created dedicated sustainability teams that act as a bridge between the ESG data and regulatory universe and the primary research teams. Over time it is expected that these teams may ultimately be folded in the broader research functions.

What is the biggest challenge to managing ESG data?



The lack of consistent standards for ESG data and reporting was viewed by the team as the most important challenge as this creates significant uncertainty for the organisation as they continue to apply ESG practices to their investment process. It impacts client perception as they are also uncertain of which rules and frameworks should and should not apply.

The overall task of managing ESG data is driving issues across the organization as managers deal with governance, workflows, stakeholders and how to push the providers to improve the quality of the data. A key question is who bears the cost in the organization as more data is acquired but may not be effectively leverage because of quality, coverage, or materiality issues. A more agile and cost-effective approach is needed to help managers address these challenges. ESG data should be no more controversial than pricing and indicative data.

Conclusions and Next Steps

Overall, the group agreed there is an opportunity for collective action across the industry to encourage standardisation, increase data quality and coverage, and to build management frameworks and best practices to help asset managers improve their ability to manage ESG data and processes.

Our next forum is scheduled for 23rd August, 2022, and will focus on approaches to managing ESG data including Vendors, In-house, and Industry Utilities.



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