INVESTMENT BELIEFS TO PORTFOLIO CONSTRUCTION

INTEGRATING RESPONSIBLE INVESTMENT PRINCIPLES

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FRAMEWORK FOR SUSTAINABLE GROWTH

ESTABLISH BELIEFS

- BOARD / TRUSTEE BUY-IN
- FIDUCIARY OBLIGATIONS

ENHANCE PROCESSES

- DEVELOP POLICY
- EVOLVE INTERNAL GOVERNANCE
- MARKET-WIDE FOCUS

EVOLVE PORTFOLIO

- ASSESS RISK / EXPOSURE
- REBALANCE / RE-ALLOCATE / HEDGE
- IDENTIFY INVESTMENT OPPORTUNITIES
- ENGAGE MANAGERS & COMPANIES
• Sustainability is embedded as one of Mercer’s five key investment beliefs*.

• A sustainable investment approach for clients considers environmental, social and governance (ESG) risks and opportunities, and incorporates active ownership principles, as these can have a material impact on long-term risk and return outcomes.

• Each investor’s approach will be unique reflecting priorities based on the requirements of stakeholders (including regulators), investment structure and approach, available resources and governance budget.

*Available at www.mercer.com/services/investments/investment-beliefs.Html
**Evidence remains mixed but generally positive…**

- **Serafeim et al. (2015):** Firms with good performance on material sustainability issues significantly outperform firms with poor sustainability performance.

- **Morgan Stanley (2015):** ‘Sustainable’ (US) equity funds had equal or higher median returns and equal or lower volatility for 64% of the period 2007-2014.

- **Dimson et al. (2012):** Successful investor-company engagement (in the US) led to improvements in operating performance, profitability, efficiency, and governance.

- **Deutsche Bank (2012):** Meta-analysis (of 100+) academic studies found that ESG factors are correlated with superior risk-adjusted returns at a securities level.

- **Eccles et al. (2011):** “High Sustainability” companies significantly outperform their counterparts over the long-term.

- **Ammann et al. (2010):** Better corporate governance practices are reflected in statistically and economically significantly higher market values.

- **SSgA (2008):** Poorly governed companies in Australia, Japan & Canada delivered “very poor” investment performance.

- **Mercer (2007 & 2009):** Meta-analysis of existing academic literature found a majority of studies showing a positive or neutral relationship between ESG factors and portfolio performance.

- **Deutsche Bank (2005):** Corporate governance has a positive effect on stock price & competitiveness.

- **Sengupta & Bhoraj (2001):** Good governance reduces default risk, increases yields.
CONTEXTUALIZING THE ISSUES

ESG

Climate Change

Carbon
MAKE TOMORROW, TODAY