

The benefits of fiduciary management and ESG integration



So, why is fiduciary management more crucial than ever before?

As environmental, social and governance (ESG) factors continue to grow in prominence, efficient and proactive management is more crucial than ever in helping to provide additional specialist support. This is especially true today, when investors are challenged by high market volatility, political uncertainty and regulatory constraints.

At its core, fiduciary management is a governance solution. Decisions need to be made at every stage of the investment process, from putting investments in place to monitoring and managing the portfolio on an ongoing basis. By selecting the right fiduciary management (FM) partner, trustees are, in our opinion, better able to do the following in order to improve their investment outcomes:

- Identify investment opportunities
- Proactively manage risks
- Comply with regulatory developments

It is important to recognise where the opportunities or risks will be when considering ESG factors. The intersection of ESG and FM can provide trustees with a richness of information and specialised strategies to identify issues driven by risk mitigation, provide return maximisation and comply with regulatory changes and individual beliefs.

A refined and integrated approach to ESG

Fiduciary management is about using the expertise of the chosen provider and making the most of their investment proficiency. This includes understanding their processes - including how they are capturing and utilising ESG factors. By hiring a specialist who acts as an extension of their own resources and preferences, trustees can improve the likelihood of achieving their overall objectives - both in performance and in ESG.¹

Whilst ESG factors do impact security prices, we believe they do not have to mean sacrificing performance. In fact, building an investment portfolio that has a greater focus on ESG considerations could potentially even improve investment returns.

FM clients can benefit from a holistic approach to ESG integration across business and culture, rather than it being a separate consideration or afterthought. We believe the following are the best practices and considerations that trustees can potentially benefit from when FM and ESG are integrated.

Bespoke ESG strategies

In addition to incorporating ESG considerations in all funds, fiduciary managers can build bespoke ESG strategies. These strategies can create innovative, proprietary methodologies and tools to support advanced ESG investors in pushing boundaries, allowing continual delivery on fiduciary responsibilities.

Manager evaluations

Both a sound awareness of ESG factors and a robust process are essential for responsible investing. A robust process can deliver strong investment returns and can help meet objectives over the long term, as can establishing a dedicated ESG rank for managers' investment strategies. These ESG ranks are a qualitative assessment of how well active managers understand the impact of ESG factors on short and long-term security price evolution, portfolio-level risk and the return profile of the portfolio. This evaluation considers the asset class, region and industry and how their approach to ESG is evolving over time.

Screening

A robust screening policy and procedure can help ensure that pooled funds for investors avoid investing in companies involved in controversial production. A key part of the screening process is the creation of an exclusion list and reviewing it quarterly.

Moving away from a traditional model: Better outcomes for trustees and members

In today's investment landscape, we believe the traditional model of pension fund investing is sub-optimal. This older approach uses a static asset allocation, following advice from consultants. It often takes between 12-18 months for changes to be proposed, agreed and implemented within the investment portfolio. FM can take a different approach and incorporate responsible investing in the investment manager evaluation process, portfolio management, advisory services and through implanting proprietary solutions, as desired by clients. It includes closely monitoring and managing the portfolio in real-time. In addition to considering ESG factors within pooled funds, having a dedicated internal taskforce that works with clients to build bespoke ESG strategies is crucial in managing long-term opportunities and risk.

The bottom line

Fiduciary management makes the most of the underlying investment managers, understanding and being comfortable with the process adopted by the manager. The focus on ESG is only likely to increase in the coming years and choosing an FM partner who fully embeds ESG within its investment process is a positive step to prepare for an ever-changing world.

As FM continues to provide greater governance, transparency and consistency, those who want to improve the outcomes for their clients and, ultimately, for the members they represent, will benefit from the developments.

Russell Investments has over 40 years of experience delivering client satisfaction and innovative solutions and are proud to be the PLSA FM education partner, helping to inform and educate members on fiduciary management. There are a range of fiduciary services to help implement the right strategy for you and to help map out your path to the funding level you need.



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¹ Ross, L (2019, July 19) "When it comes to ESG and performance, can you have your cake and eat it too?" *Russell Investments Blog*. <https://russellinvestments.com/uk/blog/when-it-comes-to-esg-and-performance-can-you-have-your-cake-and-eat-it-too>

Learn more about Russell Investments' approach to fiduciary management.

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