Beware ‘greenwashing’[1]

Increasingly, managers are integrating environmental, social and governance (ESG) factors into their investment process and beginning to actively engage with companies. It is one thing to cosmetically integrate ESG into portfolio construction. It’s another to do so meaningfully. There is a clear gap between the mainstream and the market leaders who have been involved with ESG for decades.

As a pioneer in the field, Hermes positions ESG investing at the very core of its business. They know how to identify existing and potential ESG risks, and appreciate there are no quick fixes for solving them. Through years of experience and collaboration with companies and stakeholders, Hermes has developed an approach that we believe gives their investment managers a competitive advantage in identifying and mitigating ESG risks. We summarize these key points in the table below.

Mainstream	Market Leaders	Hermes
Stand-alone engagement and/or ESG functions	Joined up approach with insights from engagements, a key input into portfolio construction.	✓
Engagement is largely reactive and letter-based with no dedicated resource	Board-level, face-to-face engagement. Setting and measuring progress against specific, measurable, attainable, relevant and timely (SMART) objectives.	✓
Use of ESG as an indicator of risk	Focus on opportunities as well as risk. Enhanced ability to possibly extract value from ESG data.	✓
Use of backward looking/static quantitative and absolute ESG metrics	Quantitative ESG factors overlaid with qualitative data from engagement activity. Ability to forecast the potential future trajectory of ESG performance.	✓
Utilize solely market providers of ESG data	Experienced in anticipating possible market outcomes. Develop proprietary tools integrating public data with engagement insight.	✓

[1] *Noun: Expressions of environmentalist concerns especially as a cover for products, policies or activities (Merriam-Webster)*

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G85020-12 (8/19)
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