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Promoting  
Responsible  
and Sustainable  
Investing:  
**CFA Institute  
ESG and  
Sustainability  
Initiatives**


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CFA Institute

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Environmental, Social, and Governance (ESG) and sustainability issues are gaining importance and influence in the investment industry. CFA Institute is leading the way in educating investment professionals about ESG investing principles as well as in advocating for better reporting and transparency. The ESG investing ethos embodies our efforts to promote a fiduciary culture and a more sustainable form of capitalism through our Future of Finance initiative—a global effort to shape a more trustworthy, forward-thinking financial industry that better serves society.

A row of white wind turbines is shown against a clear blue sky. The turbines are arranged in a line, receding into the distance. The blades are long and thin, and the towers are tall and slender. The lighting is bright, suggesting a sunny day.

CFA Institute is dedicated to advancing the practice and integrity of ESG investing with multiple initiatives, outreach programs, publications, content, and curriculum updates in the area.



## GLOBAL INITIATIVES

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### Accounting for Sustainability (A4S)

His Royal Highness The Prince of Wales hosted an Accounting for Sustainability (A4S) discussion on 7 February 2017, bringing together a small group of securities regulators, investors, and industry leaders to explore the framework needed to enable action on climate change and other sustainability-related financial risks. CFA Institute president and CEO Paul Smith, CFA, participated in the event, which focused on the extent to which ESG risks and opportunities are sufficiently considered as part of investment decision making and analysis. Several recommendations and actions were put forth, including incentivizing better disclosure and building communication and capacity around ESG. It became clear that CFA Institute has a potential role in training members on value creation oriented around sustainability issues. CFA Institute will continue working with His Royal Highness's A4S initiative to help advance its vital objectives.



His Royal Highness The Prince of Wales and CFA Institute president and CEO Paul Smith, CFA, at an Accounting for Sustainability (A4S) event on 7 February 2017

### Women in Investment Management Initiative

CFA Institute has launched the Women in Investment Management initiative, which aims to improve investor outcomes by encouraging diversity in the investment management profession. Goals of this program include increasing the number of women who join the profession and earn the CFA® charter; retaining women in the profession; and creating demand for diversity as an industry imperative. The Women in Investment Management initiative features ongoing conferences and events, a professional network, scholarships for women, and research—including the largest ever survey of investment management professionals on the subject of gender diversity.

## GLOBAL INITIATIVES

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### Environmental, Social, and Governance (ESG) Survey

In 2015, CFA Institute conducted a survey to better understand the perceptions of CFA Institute membership concerning ESG issues and ESG data, as well as how members use such information in their investing processes. Some key findings include 73% of survey respondents take ESG issues into account in their investment analysis and decisions, with governance being the most common. In May and June of 2017, we will be updating the ESG membership survey to see what trends are developing in our members' understanding of ESG issues and ESG integration.

### Online Forum: ESG Issues in Investing

ESG in investing covers a variety of issues, including such areas as alternative energy, water, waste, biodiversity, forestry, transportation, health care, human rights, child labor, employee relations, and executive compensation. There are ongoing debates as to why ESG issues are important and to what extent they should be given due consideration in traditional investing. To gain clarity on the debate about ESG issues in investing, CFA Institute hosted an online forum in June 2014 under its Future of Finance initiative, which is a global effort to shape a trustworthy, forward-thinking financial industry that better serves society.

### High Meadows Institute

High Meadows Institute is a non-profit organization with a mission to increase the contribution of business leadership in addressing the complex environmental and societal challenges of the twenty-first century. CFA Institute plays an advisory role to the organization, including helping to guide the development of its Future of Capital Markets project, a three-year initiative that aims to identify opportunities within mainstream finance to accelerate the integration of sustainability factors into investment strategy and management practices. In September 2015, the High Meadows Institute launched an industry-only forum to explore how ESG factors can be more effectively integrated into mainstream investment management. As part of the Future of Capital Markets project, the goal of the forum is to bring together ESG representatives and asset managers from leading financial firms and companies to explore strategies and valuation models that can accelerate the integration of ESG factors in investment decision making.

### Principles for Responsible Investment

To better understand ESG integration in the investment process, CFA Institute is partnering with the PRI (Principles for Responsible Investment) to hold events in approximately 15 global markets from September 2017 to January 2018. Each event will include a workshop component, in which a panel of ESG-experienced local investors and analysts work to better understand ESG integration, discuss best practices, and address the challenges and opportunities. Each day will also include a broader educational discussion meant for an audience of CFA Society members and other interested parties.

CFA Institute and the PRI plan to co-author a paper or series of papers in 2018, expanding on our findings from each of these events, with the goal of helping investors around the world better understand the ESG integration process. The PRI is an independent organization that works with an international network of signatories to put its six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social, and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

## CFA PROGRAM CURRICULUM

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We believe that every investment analyst should be aware of the risks and opportunities associated with ESG issues. We help investment professionals better understand ESG issues in investing through our educational programs and learning opportunities for continuing professional development. In 2017, our practitioner-led global practice analysis process established enhanced coverage of ESG issues in the CFA Program curriculum. The current CFA

Program curriculum discusses important ESG and socially responsible investing (SRI) issues such as ESG risk exposure analysis, corporate governance valuation implications, and positive and negative SRI screen impact on portfolio style characteristics. We regularly analyze the practice of investment management through our global membership to develop and enhance the CFA Program curriculum to meet the needs of employers in the industry.

### ESG Investing: A Comprehensive Overview

This online course is an introduction to environmental, social, and governance (ESG) issues in Sustainable, Responsible, and Impact investing (SRI). It is designed to help professionals gain an understanding of the fundamentals of ESG investing. Topics include: ESG methods, concepts and examples, fiduciary responsibility and financial performance, the environment, social finance, and gender diversity.

## RECENT CFA INSTITUTE PUBLICATIONS AND ARTICLES ON ESG

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### *Environmental, Social, and Governance Issues in Investing: A Guide for Investment Professionals*

Usman Hayat, CFA, and  
Matt Orsagh, CFA, CIPM

The practice of considering environmental, social, and governance (ESG) issues in investing has evolved significantly from its origins in the exclusionary screening of listed equities on the basis of moral values. A variety of methods are now being used by both value-motivated and values-motivated investors in considering ESG issues across asset classes. There is, however, a lingering misperception that the body of empirical evidence shows that ESG considerations adversely affect financial performance. For investment professionals, a key idea in the discussion of ESG issues is that systematically considering ESG issues will likely lead to more complete investment analyses and better-informed investment decisions.

### *Environmental Markets: A New Asset Class*

#### **Research Foundation Publications**

Richard L. Sandor,  
Nathan J. Clark,  
Murali Kanakasabai, and  
Rafael L. Marques

Population growth, industrialization, and urbanization in the past 200 years have resulted in local, national, and global pollution of our environment. Markets, when designed properly, can be a powerful agent to combat this pollution. Environmental finance is thus the art and science of using economic incentives, financial tools, and market mechanisms to achieve desired environmental outcomes.

### *Integrated Reporting and Investor Clientele*

#### **CFA Digest**

George Serafeim  
Summarized by Clifford S. Ang, CFA

Examining the relationship between integrated reporting (IR) and long-term value creation, the author finds that IR attracts a longer-term investor base and lowers the number of transient investors. This relationship is stronger for companies with high growth opportunities, companies with very limited ownership by the founding family, companies that are subject to strong social criticism, and companies with a consistent IR practice.

### *Beyond Category*

#### **CFA Institute Magazine**

Sherree DeCovny

This is the first in an ongoing series of articles examining ESG and other curriculum topics that reflect practical knowledge and skills needed in today's investment industry. With substantial gains in assets under management, ESG investing's growing popularity has driven improvements in data reporting and financial metrics, among other trends that are changing the game for analysts and investors. Across industries, managers of many companies increasingly believe ESG factors can improve business strategies, improve operational efficiency, drive revenue growth, and manage risk. Although some studies have suggested marginal outperformance associated with ESG strategies, experts highlight the stronger case that there is no performance penalty for ESG investing.

## RECENT CFA INSTITUTE PUBLICATIONS AND ARTICLES ON ESG

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### *Expanding ESG Coverage* **CFA Institute Magazine**

Lori Pizzani

More investors are applying ESG screens for fixed-income securities. Whether the approach is dubbed sustainable investing, impact investing, or screening for environmental, social, and governance (ESG) practices, the trend of applying these approaches for investing has definitely gone mainstream. Until recently, the focus has been on equity investing, but the practice of applying ESG screens for fixed-income analysis is growing.

### *Indexes Sprout Up as Green Bonds Take Root*

**Investment Risk and Performance**  
Deborah Kidd, CFA

Green bonds fund assets and activities that address critical climate change issues. Although diminutive in size compared with the overall bond market, the green bond market exploded in 2014, and multiple indexes were launched. Labeled green bonds are structured and rated in the same way as non-green bonds but carry the risk of "greenwashing"—the risk that a bond's proceeds fund an activity that lacks direct and positive environmental impact.

### *Hedging Climate Risk* **Financial Analysts Journal®**

Mats Andersson, Patrick Bolton,  
and Frédéric Samama

We present a simple dynamic investment strategy that allows long-term passive investors to hedge climate risk without sacrificing financial returns. We illustrate how the tracking error can be virtually eliminated even for a low-carbon index with 50% less carbon footprint than its benchmark. By investing in such a decarbonized index, investors in effect are holding a "free option on carbon." As long as climate change mitigation actions are pending, the low-carbon index obtains the same return as the benchmark index; but once carbon dioxide emissions are priced, or expected to be priced, the low-carbon index should start to outperform the benchmark.



## ESG ADVOCACY

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Environmental, social, and governance (ESG) factors are increasingly seen as important for financial analysis, security selection, and asset allocation. At the same time, in order to effectively implement an ESG investment strategy, companies need to adhere to principles of transparency and disclosure on ESG information. For this reason, CFA Institute is dedicated to advocating for enhanced sustainability and ESG reporting and is actively pushing several initiatives to that end, including the following recent activities.

### Supporting climate change disclosure:

CFA Institute issued a recent comment letter in response to the recommendations of the Financial Stability Board's (FSB's) Task Force on Climate-Related Financial Disclosures. The task force offered analysis and commentary on better disclosure of climate-related financial risks. In our response, we support the overall objectives and specific recommendations of the FSB's task force. We also encourage the FSB to align its efforts with other initiatives that aim to improve sustainability reporting (e.g., Sustainability Accounting Standards Board and International Integrated Reporting Council) in order to avoid duplication, cherry-picking by companies across frameworks, and potential confusion by investors on which framework will be the most helpful in guiding companies reporting. Our position: CFA Institute is firmly behind supporting and enhancing ESG and sustainability reporting and will remain at the forefront of this issue.

### Supporting sustainability reporting:

CFA Institute issued a Comment Letter on Exposure Draft on SASB Rules of Procedure and Conceptual Release. CFA Institute supports the SASB in its mission to make the sustainability reporting process less burdensome by working with investors and issuers to focus on the sustainability and ESG data that matter most. Issuers and investors both have struggled to focus on the sustainability indicators that are most linked to value creation in their respective industries. There can be hundreds of such indicators and pieces of data that can be measured and gathered—it is, therefore, imperative that SASB continue to work with investors and issuers to identify the main indicators that both groups agree drive value.

### Integrated Reporting (IR):

Our advocacy team continues to support the adoption of the integrated reporting (IR) approach, which is an umbrella framework that encompasses both financial and non-financial information and such information is guided by both mandated disclosure requirements and voluntary reporting initiatives (e.g., Global Reporting Initiative; Sustainability Accounting Standards Board; Financial Stability Board Climate Change Task Force). The integrated reporting framework is voluntary, applicable for companies across the globe, and emphasizes the effective communication and connectivity of all information that is relevant for assessing the long-term value creation of companies. In effect, this framework is a vehicle for understanding value creation and for encouraging companies to think more about how they maximize value. It is also a vehicle for understanding relevant ESG performance factors in a way that provides insight on the strategy, business model, and value creation story of companies over time. We are members of the International Integrated Reporting Council (IIRC) advisory council, and we have given input to the IR investor competency framework being developed by the IIRC that will be used as a guide by training providers.





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