Why Is ING Investment Management so Committed to ESG?

Sustainability and environmental, social and governance (ESG) efforts have been in ING Investment Management's genes for a long time. This is reflected in the company's business principles, where it clearly refers to its social responsibility. These criteria are applied to both ING Investment Management's services and the products it offers its clients. In the following interview, Oliver Oehri, Founding Partner of CSSP, the Center for Social and Sustainable Products, talks to Hendrik-Jan Boer, Head of Responsible Investing at ING Investment Management.

Interview with Hendrik-Jan Boer
Head of Responsible Investing
ING Investment Management

Oliver Oehri: Which role do intangible assets play in your investment process?
Hendrik-Jan Boer: Intangibles play a key role in our investment process and are in our opinion of significant competitive importance. We believe that traditional accounting-based financial analysis is inadequate to cope with a changed competitive and investment environment. Suppliers, customers, regulators and non-governmental organizations (NGOs) all exert influence on corporate value creation or destruction capabilities and should therefore also be taken into account. Equally, many ESG intangibles are also material and can be drivers of future risks, comparative advantages and value-creation capabilities. In the picture on the next page one can see that financial analysis represents only the tip of the iceberg. The intangible assets can be found below the surface and represent the majority of the total value of a company.

The materiality of the above-mentioned aspects directly come to mind when one thinks of the significant negative impact on an oil company's share price of a major oil spill that has been caused by negligence and a long period of underinvestment in its corporate health and safety activities. Or the lack of transparency and control of a corporate's supply chain that led to lethal and fatal activities in the sectors of infant nutrition and fast-food restaurants. On a positive note one can also think of newly created markets such as electric vehicles, new efficient fuel management technologies, LED lighting, renewable energy and healthy food. All these examples relate to cost and revenue developments as well as long-term reputational profiling.

Oehri: Is it possible to measure the value of intangible assets?
Boer: Yes, intangible assets can be measured, though the more important and difficult question is what the factors are which ultimately determine these intangible values. What is their importance and relation to this value, and do they have predictive power? Over the years many papers, also academic ones, have been written to determine the (non-)value of ESG factors to relative corporate and investment performance. Fact-finding by the United Nations Principles for Responsible Investment (UN PRI) learned that the majority of these papers indicate a neutral to positive relation between ESG factors and performance. In order to do more and in-depth research on the most important value creative factors in ESG/SRI investing we have recently signed a multi-year contract with the European Center for Corporate Engagement (ECCE).

Oehri: Is ESG investing becoming mainstream investing?
Boer: The answer to this question strongly depends on the definition of ESG investing. If it is the application of many strict activity-based exclusion criteria to the investment process, the answer is no.

If it concerns integration of ESG factors in stock-selection methodologies that strongly focus on materiality aspects, the answer should be yes. Investors always have to take all material factors into account when analyzing companies for investment purposes and generate an opinion on the ultimate impact of these factors. Many ESG factors seem to have a clear relation with future corporate return opportunities, risks and the (perceived) profile and reputation of companies. Studying these ESG factors in relation to returns then looks like a key part of investors' fiduciary duties and clearly favors a holistic perspective in corporate analysis that takes all stakeholders into account.

Oehri: What is the ESG approach within ING IM?
Boer: When it comes to the methodology applied to ESG integration in our overall investment research efforts we have to distinguish between asset classes. What works in equity does not necessarily work in fixed income.

In all our equity research, including our dedicated SRI equity strategy, we apply a best-in-class approach (focus on the top 50% scoring companies with regard to ESG criteria) and take a holistic perspective on ESG. We believe that this best fits our analysis of corporates on their competitive position (strength and weaknesses) and their preparedness for future opportunities and threats. We study transparency, formal policies, management systems and performance levels for all ESG factors applied. This includes the analysis of all sorts of controversies companies can be involved in. Data on all topics relevant to corporates ultimately leads to a total score for companies that give insight in how they rank on these aspects versus their peers. This tells us whether they put their money where their mouth is – a very important aspect of management quality we believe. It should not come as a surprise that the ESG analysis is compulsory for our analysts in all their company research efforts and the documents they create. Therefore all our equity investment activities can truly claim ESG integration. This is, for example, reflected in the total score ING Investment Management gets of the UN PRI for ESG incorporation vs. its peer signatories.

A Leader in Socially Responsible Investments

ING Investment Management (ING IM) launched, as one of the first global asset managers, a Socially Responsible Investments (SRI) initiative back in 1999; this led to the company's first (global) SRI product being launched in 2000. ESG is truly integrated in ING IM's investment processes and in all its investment products and services. The company performs active ownership with voting and engagement activities, internal principles and policies reflecting societal values and criteria (e.g. the exclusion of controversial weapons producers) and the offering of dedicated and specialized SRI products. ING Investment Management believes that this has improved the company's products and services, while it also fits the clients' preferences and societal values well.

Oehri: Is ESG a performance driver or only a cost component?

Boer: As explained, we apply ESG from the perspective of materiality and as a key tool in our search for added value in our investment activities. Internal research teaches us that the application of our ESG methodology leads to better risk management and better relative performance; findings that will be further refined and studied in our cooperation with the ECCE.

From a cost perspective we have never seen major hurdles. Indeed we have to pay for some external data collection and analysis services, but the cost of these in comparison to, e.g., the total amount of our assets under management to which it is applied, is very small. Most costs result from the time spent by our analysts on ESG in our investment process. However we see this as an important source of additional value and part of our fiduciary duty.

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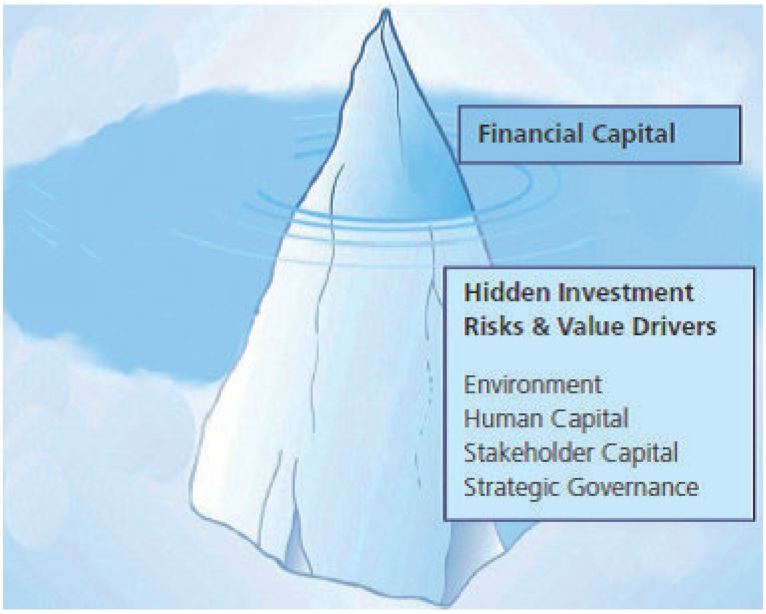

Oehri: How important is transparency?

Boer: All fact finding and fundamental research analysis starts with sufficient transparency. We need it as asset managers to fulfil our ambitions; our clients need it to know what our products and services stand for. This includes transparency on data, methodologies, results, assumptions, characteristics etc. Good governance goes with full transparency. We attribute a lot of value to it and it is incremental to our investment research as well as servicing our clients. For our clients we try to provide as much transparency as possible too on ESG, e.g. through external independent platforms such as EuroSIF and the UN PRI.

Oehri: What are the trends going forward?

Boer: The inclusion of ESG in investment processes is, according to us, unstoppable. Demand, although in various forms, is ever increasing. This is driven by many stakeholders: investors, customers, suppliers, regulators, media etc. We have ever more conviction that it is a fixed part of fiduciary duties and an important source of added value in return enhancements and risk management.

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