

Spotlight on ESG Talent in Asset Management



The Headlines

Tomorrow's corporate winners will be those with a powerful ESG proposition. Without it, companies will struggle to attract employees, customers, and investors. For Asset Managers, ESG will determine whether a company is "investable".

In this paper we look at what that means for ESG talent in Asset Management:

- Asset Managers are moving ESG roles from niche expertise to firm-wide integration
- Change is happening fast; Covid has accelerated existing trends and 2021 will be a critical year of transformation
- Need to look beyond the Asset Management sector for talent as ESG responsibilities change

ESG Talent: What the market is saying

ESG is a regular topic in the business pages these days, but there is little discussion about the skills and capabilities Asset Managers need to develop if they are to compete in a market where ESG is part of every decision.

This paper is based on conversations/interviews with over 50 corporate and financial leaders, and analysis of the ESG function at 150 large asset managers in UK, Europe and the US, to identify what Asset Management CEOs are looking for.

"It has had a real snowball effect over the past few months"

"It's about values and DNA"

ESG is a strategic issue

ESG issues, say our clients, will disrupt the business world as much as technology did a decade ago; and just as boards and shareholders had to learn about and adapt to the digital age, so they must be ready to cope with the social, economic and regulatory demands of a zero-carbon economy and a post-Covid world that has highlighted the inequalities and injustices of the current model.

“Companies are at a point where they have to reflect on point and purpose and how to balance profitability with social purpose”

True, ESG has been around in various forms for many years (see box below), and Asset Managers have run ethical or responsible funds for decades that fall in and out of favour as fashions change. But the view from our respondents is that this time it is different. Businesses that want to stay profitable over time, they say, will have to justify their existence beyond simple shareholder returns.

Major implications for Asset Managers as they integrate ESG across their firms

What does this mean for the asset managers who represent the shareholders? According to our research, it means ESG expertise needs to emerge from its specialist niche and sit at the heart of boardroom discussions. The recent Gamestop/Reddit saga shows that even the Asset Management sector has its own social movement to contend with. It may not be at the same level as Black Lives Matter or #MeToo but it reflects the need to consider a far wider group of stakeholders than might have been the case a few years ago. This makes it a strategic issue, rooted in the core purpose, DNA and values of an organisation, and needs to start at CEO level.

“ESG is central to investment strategies, not a ‘nice to have’ anymore”

ESG – Complexity, Contradictions and Confusion

What does ESG refer to? Environmental, Social and Governance – issues, activities, policies, metrics or regulations? One of the challenges raised in our ESG discussions is the complexity, confusion and contradiction of so much terminology and metrics.

Today the acronym can incorporate older concepts like the Triple Bottom Line and Socially Responsible Investing as well as current issues such as Climate Change, The Circular Economy, CSR, Sustainable Development and Impact Investing.

“We have come a long way to a more joined up approach where many understand that ESG is not purely about climate change”

In fact ESG covers three very distinct categories. Environmental issues are well established and metrics on emissions and waste for example, are part of all annual reports. Governance too has a long history but usually sits within compliance reporting. Social is less well defined but can take in both community affairs and HR responsibilities such as Diversity & Inclusion. Such a “mish-mash” of responsibilities adds complexity to any job description.

Despite a plethora of new regulations and policies there’s little consistency in reporting standards – even though investors want to see a standardised system and corporates would like a level playing field. For now, simply keeping up to date feels like a full-time role.

Head of ESG: Investment strategist or C-Suite member?

Like many leading multinationals, some Asset Managers have long had an interest in sustainability. According to our analysis, nearly three quarters of the largest asset managers in Europe and the US now have a Head of ESG, responsible for integrating ESG factors into their investment strategies and establishing policies and processes for effective ESG oversight.

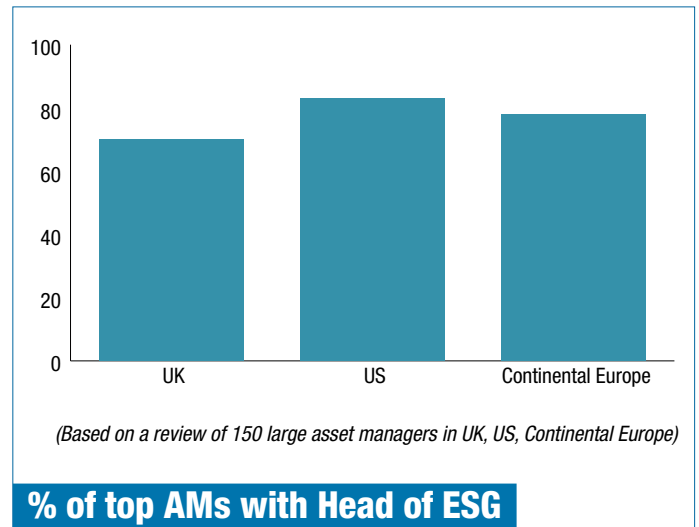
A key question that came up in our conversations was how much this role should be confined to investment products, and how much the Head of ESG should take a company-wide responsibility for ensuring that ESG is embedded across the firm.

So far there is little evidence that these roles have a remit beyond investment strategies or sit within the C-suite – something that will have to change, say our respondents.

“Many apply ESG metrics to investee companies but fail to think about ESG standards in their own company”

This is because the broader theme of ESG is how to “be a purpose-led and profitable company for the long term”; and perhaps this idea of starting with a sense of purpose is why the Norwegian Sovereign Wealth Fund started by hiring a moral philosopher. For the most part, though, current ESG heads have come from within the sector (see box on p4).

“If you do not ask tough questions on sustainability today as an investor, you will have an issue with the valuation of your investment in five years’ time”



% of top AMs with Head of ESG

Actual job titles vary significantly, with many using “Sustainability” (especially in Continental Europe), “Stewardship” and “Responsible Investing”. A minority combine the role with another – compliance, corporate communications, investor relations.

What might the new Head of ESG role look like?

Clearly the existing responsibilities for understanding and applying ESG criteria to ESG investment funds will continue. But our respondents pointed to a broader role, that would see the integration of ESG criteria into all investment funds, not just ESG products, and also into the way the asset management firm operates: its own hiring policies, its carbon footprint, its record in proxy votes, how it behaves as an organisation. This implies a very senior position, touching every aspect of the business – just as technology does already, creating the role of Chief Technology Officer.

With this as a revised job description, what capabilities are CEOs looking for?

Asset Managers seek ESG enthusiasm tempered with commercial practicality

As with technology, ESG raises several questions on talent development practices for asset managers. Do you develop from within the sector, and enable experienced asset managers to become ESG experts? Or do you find the best ESG talent in the business (or political or academic) world, and train them in the ways of asset management?

While the detail of the roles varies significantly across organisations, CEOs have highlighted some common capabilities for their Heads of ESG:

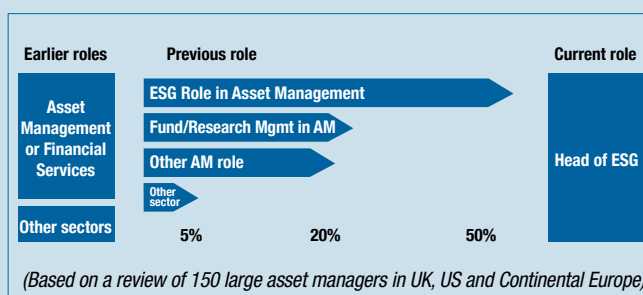
- Understanding of underlying asset management products.
- Up-to-date familiarity with the enormous volumes of developing regulatory ESG policy.
- Breadth of knowledge across the spectrum of ESG topics.
- Strong analytical skills and the ability to handle conflicting data and priorities.
- Excellent stakeholder management and communication skills.
- Broad and commercial outlook matched by an enthusiasm for the ideals of ESG.

This last point is crucial: respondents told us that there is a potential for conflict between young ESG zealots (as one put it), and more experienced fund managers focusing purely on returns. But most argue there is no conflict between aiming for better returns and helping to build a better world (and market data showing better returns for ESG positive stocks bears this out).

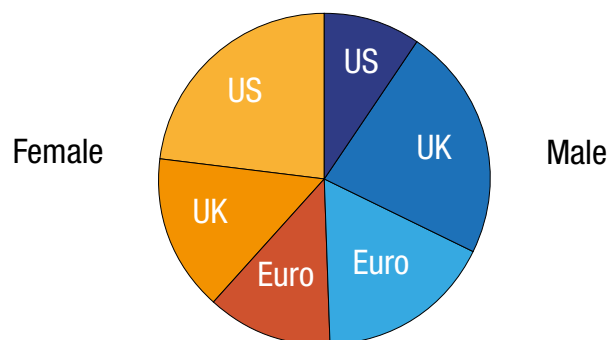
Several respondents emphasised the wide-ranging scope of future ESG roles, pointing out that they will require a broader business background than is usually the case now, with a focus on bringing together a variety of stakeholders across sectors, functions and disciplines. This provides a powerful argument for bringing in cross-sector expertise.

A tendency to hire from within the sector risks missing the opportunity

The backgrounds of current ESG Heads shows a strong bias towards hiring from within the sector. Three quarters were already in ESG or portfolio manager roles, and most of the rest were in other positions within Asset Management. Fewer than 5% came from outside the sector, and less than a quarter had ever worked outside Asset Management or Financial Services.



The industry is still some way from following the lead of Yngve Slyngstad of the Norwegian Sovereign Wealth Fund whose first hire into their ownership team was a moral philosopher.



Gender Diversity: globally, over half of ESG Heads are women

In Summary

Five key points stand out from our interviews and discussions:

- Any firm-wide ESG initiative needs to start with the board, led by the CEO.
- To be effective in delivering ESG integration, the senior executive team needs to have the right ESG expertise – ideally the Head of ESG will sit at Executive Committee level.
- ESG expertise and enthusiasm must be combined with a commercial approach in a much broader role than has traditionally been the case.
- Within an expanded ESG team, data, knowledge and understanding of policy drivers and upcoming industry regulations are critical.
- Focus on the opportunity; regardless of size, firms need to seize the opportunity to shape their business for the future.

“ESG is not about risk management but about the sustainability of a business”

The Ridgeway view:

open the talent pool beyond the sector

Asset Managers who put ESG at the heart of their business model stand the greatest chance of delivering both better returns and helping “build back better”, post-Covid – and becoming the “employer of choice”.

It will be a challenge for many: it is a topic full of complexities and contradictions. Boards and their executives need to familiarise themselves with the technical and scientific issues but they must also understand the social drivers of a new generation of employees and clients. This means looking beyond the dry statistics of carbon emissions or gender pay ratios to the behaviours and values that lie behind the numbers.

We recommend that you consider the following actions:

- Review the Board’s capabilities and expertise in ESG matters
- Ensure ESG expertise exists within the senior executive team
- Consider hiring ESG talent from outside the Asset Management sector

To discuss in more detail, please give one of us a call – we would love to hear your thoughts. You will find our details on the next page.



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