

# SUSTAINABLE EFFICIENCY: WHAT NEXT?

Managing carbon emissions continues to be a key element of sustainable investing, while data collection and availability, as well as research and analysis, are the burgeoning factors for making it tangible.

Northern Trust, the global asset servicer and asset manager, recently held its Annual Nordic Conference in Stockholm. The focus on Environment, Social and Governance (ESG) was clear.

**“Sustainability is the single most important universal trend we are seeing across our client base so it’s not going away. You can have the best principles and policies, but in the end it’s all about the data. The management, the oversight and the governance of what you have to deliver back to your Board and Investment Committee is absolutely critical”, concludes Penelope Biggs, head of Institutional Investor Group, Europe, Middle East and Africa, at Northern Trust.**

The global financial institution provides a broad perspective on sustainability from investment solutions through to the servicing of those investments. The company’s own commitment to social responsibility has, over the years, gained a lot of plaudits. They were ranked the best US private bank for SRI in 2014 by the Financial Times and stand as one of Fortune Magazine’s most admired companies. For their annual Nordic conference, it was hard to find a more fitting place than Stockholm, Sweden, to discuss the most important trends in sustainable investing within the institutional investor arena.

“We have been running socially responsible investing for the last twenty five years”, says Wayne Bowers, CEO and CIO for Europe, Middle East and Africa and Asia Pacific regions at Northern Trust’s asset management division. More than 60 billion dollars of their managed assets are screened either positively or negatively in relation to sustainability and ESG.

“This region is one of the leaders in terms of their approach and effectiveness, but also when it comes to implementation from an ESG perspective”, says Bowers.

“And we continue to see an escalation in the demand for more transparency and more disclosure requirements. This ultimately will affect choice: what funds do I invest in?”

The Nordic region, and particularly Sweden, has for many years had a strong emphasis on sustainable business. World-renowned brands have long used sustainability and ESG as an integral part of their core business, to a large extent driven by a socially conscious and well informed Swedish consumer. For example, Sweden continues to top the Robeco SAM Country Sustainability Ranking, which ranks 59 countries based on 17 environmental, social and governance indicators.

“The Nordic region is far ahead in terms of implementation and adaptation. And they are being watched by other countries, in terms of things to avoid and things to include”, says Bowers.

## CARBON STILL CENTRE STAGE

When it comes to viewing sustainability and ESG from an investment perspective, a lot of attention today is still placed on emissions.

“We have seen strong leadership from the Nordics

to address climate change risks, such as the low carbon strategies implemented by the Swedish pension fund, AP4”, says Mamadou-Abou Sarr, Global Head of ESG at Northern Trust Asset Management.

“What we’ve seen over the past few years is that there are more indices and more benchmarks to compare from in terms of carbon footprint.”

With the crux of discussion around sustainability centring on awareness of portfolio risks – whether these be linked to climate change or corporate governance – to be sustainable today is dependent to a large extent on finding solutions and innovations to be more efficient. And this is a learning process.

## ALL ABOUT DATA

Northern Trust says that when it comes to innovation and effectiveness it has a lot to do with collecting, analysing and presenting the most relevant data. Something that was confirmed by the audience at the conference when asked about the biggest challenges for implementation and oversight of sustainability strategies.

“In a way you could say this is the plumbing that lies behind the investment process,” says Penelope Biggs. “We are seeing differences across different markets and client types across the globe. But a common theme is the emphasis and pressure from regulators to deliver more information – whether on sustainability, or governance in general. Without the quality of the data, it’s really hard to make this information tangible, and we are getting a lot better at that. It boils down to a matter of how we get the data, what we do with the data and the output we present.”

For the last two years Northern Trust has been working very closely with many of their clients on developing a solution to process more intelligent data. “The skill for Northern Trust is to bring in the data from multiple sources, normalise and standardise the data – regardless of asset type – and then aggregate all the information”, says Biggs. “And a large proportion of our clients require the data to be daily or intraday. That’s fundamentally different from two or three years ago.”

## OUTPUT IS CRUCIAL

Gathering and processing all the data is only one side of the coin. The other side of the coin is the output.

According to Biggs “Today we can present the data differently depending on your role. And we have changed our whole programme to be more forward-looking, more thoughtful. The idea is to reconfigure our data, not tell you what to disinvest from, but how to be more thoughtful in using it for benchmarking, for example in regards to carbon footprinting.”

The next step for Northern Trust in presenting even more comprehensive tools for data analysis is their compliance engine.

“The devil is in the detail. Today we can deal with performance and risk analysis, but significant risks also lie in exposure and compliance. And here we are about halfway through a five year project to expand our compliance engine into what is essentially an in-

## SUSTAINABILITY: WORK IN PROGRESS

**Is your firm currently reporting carbon levels across some/all of its portfolios?**

Yes: **59%**

No: **41%**

**Could you see your firm introducing climate risk profiling in the next two years?**

Yes: **80%**

No: **20%**

**What do you see as the key challenge in implementing a sustainable investment strategy?**

Defining your objectives: **38%**

Having the right data: **34%**

Cost and perception of lower performance: **25%**

Choosing a benchmark: **3%**

**What are the biggest technical challenges to monitoring and oversight?**

Cost and internal resources: **30%**

Data aggregation: **27%**

Investment transparency: **27%**

Timeliness of analysis: **16%**

**By 2017, do you expect your internal resourcing and capital allocation for Governance and Compliance to:**

Increase relative to today: **90%**

Stay same: **7%**

Decrease relative to today: **3%**

Source:

Delegate survey of over 30 Nordic institutional investors at Northern Trust’s Annual Nordic Conference 2015.

stitutional governance monitoring platform where we can help automate and simplify the oversight process for our clients.

As part of this we are working on elements such as more data for sustainability benchmarks, liquidity risk analysis, monitoring guidelines, etc. – which will all in turn help support our clients as they evolve their ESG strategies”, concludes Biggs.

With an overwhelming 90% of the audience expecting internal resourcing and capital allocation to compliance and governance to increase in future, there is no doubt that the drive towards sustainable efficiency will continue to be top of the financial industry’s agenda.



**Northern Trust**