Investor Perspectives: ESG Integration Frameworks

The UN Principles of Responsible Investment define ESG integration as "the explicit and systematic inclusion of ESG issues in investment analysis and investment decisions." Below, we highlight the different integration frameworks used by three major investors: BlackRock, State Street Global Advisors' (SSgA), and T. Rowe Price which collectively manage approx. USD 15.54 trillion AUM.

As a data-driven ESG and shareholder engagement advisory firm, this article leverages our proprietary **ESG Engagement Dashboard**^{TM} - powered by +1,000 ESG engagement case studies, a digital library of proxy voting guidelines, and +8M NPX voting records for investors with over USD 50 trillion AUM - to highlight ESG integration frameworks used by large investors.
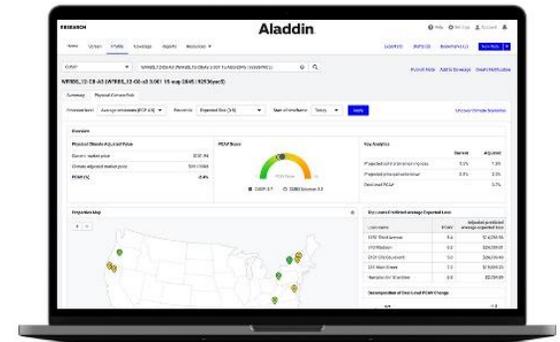
BlackRock: Aladdin

BlackRock has a longstanding commitment to integrating sustainable practices wherever it can in the investment process, and it also has specific goals related to the EU's Sustainable Finance Disclosure Regulation (SFDR). By 2023, BlackRock wants at least 80% of its funds to be ESG-integrated and to either promote sustainable characteristics or have sustainable investment as their objective. In the spirit of partnership, BlackRock intends to work closely with Aladdin to co-create new sustainable investment platform functionalities that will help meet these goals.

Aladdin is an end-to-end portfolio management software that combines sophisticated risk analytics with comprehensive portfolio management tools, trading, operation compliance, and accounting tools on a single platform.

Aladdin has a collection of ESG data and solutions that empowers ESG integration across investment workflows and helps users report on their ESG efforts. Aladdin offers access to 8,000+ metrics.

Aladdin helps solve for the increasingly complex regulatory and disclosure landscape emerging in the ESG space - including SFDR, EU Taxonomy, and TCFD.

Aladdin Climate was built to quantify climate risks and opportunities in financial terms — bridging climate science, policy scenarios, asset data, and financial models to arrive at climate-adjusted valuations and risk metrics.

State Street Global Advisors (SSgA): R-Factor™

R-Factor™ is an ESG scoring system developed by SSgA that leverages multiple data sources and aligns them to widely accepted, transparent materiality frameworks to generate a unique ESG score for listed companies.

- The score is powered by ESG data from four different providers - Sustainalytics, ISS-ESG, Vigeo-EIRIS, and ISSGovernance
- It maps 479 ESG metrics to 77 industries under SASB's Sustainability Industry Classification System (SICS®)
- Companies can improve their scores through better practice of and disclosure on industry specific SASB topics, as well as better adherence to their applicable corporate governance code

Summary	Data	Materiality Frameworks	Data source	Weighting
ESG Score	Industry specific, market agnostic	SASB	Sustainalytics; Vigeo-Eiris; ISS-ESG	90%
+ CorpGov Score	Industry Agnostic, market specific	17 market specific governance codes, devised by regulators or investors	ISS-Governance	10%
= R-Factor Score	4 Data Providers	Transparent, commonly accepted materiality frameworks		100%

- Coverage universe includes over 7,300 listed companies globally
- Voting action is taken against Board members of the bottom 10% of scores particularly when directors cannot articulate how they plan to improve
- Team also targets engagements with corporate governance Leaders (top 10% of scores) to understand best practices in their respective region and include these practices in its guidance to the broader market.
- During engagements with portfolio companies, SSgA discloses companies' R-Factor™ scores, as well as the underlying basis for those scores. This gives boards and management teams a roadmap for the specific dimensions that investors are evaluating to assess a company's sustainability efforts. It also helps companies identify which metrics to disclose and manage to improve future scores, creating a positive feedback loop in the market

Reference: R-Factor

T Rowe Price uses an in-house ESG tool called the Responsible Investing Indicator Model (RIIM).

- Their approach improves materiality as:
    - RIIM aligns 'E' and 'S' factor materiality with investment materiality
    - RIIM helps to screen out 'green-washing' efforts
    - Factor materiality is more accurate as it is assessed at the sub-industry level
- Data sources: Sustainalytics, T. Rowe Price databases, and company reports.
- Data inputs: selected based on their materiality
- Data categorization: data inputs allocated to one of 23 categories, resulting in a weighted category score
- ESG profile: category scores are assigned to one of three key pillars- environment, social, or governance - to produce an overall RIIM score. RIIM is currently able to analyze the ESG profiles of approximately 15,000 companies and issuers
- Securities flagged in RIIM undergo fundamental analysis by the responsible investing team, including engagement and proxy voting recommendations. Analysts and portfolio managers incorporate ESG factors (as appropriate to their strategy) into investment thesis, company ratings, etc

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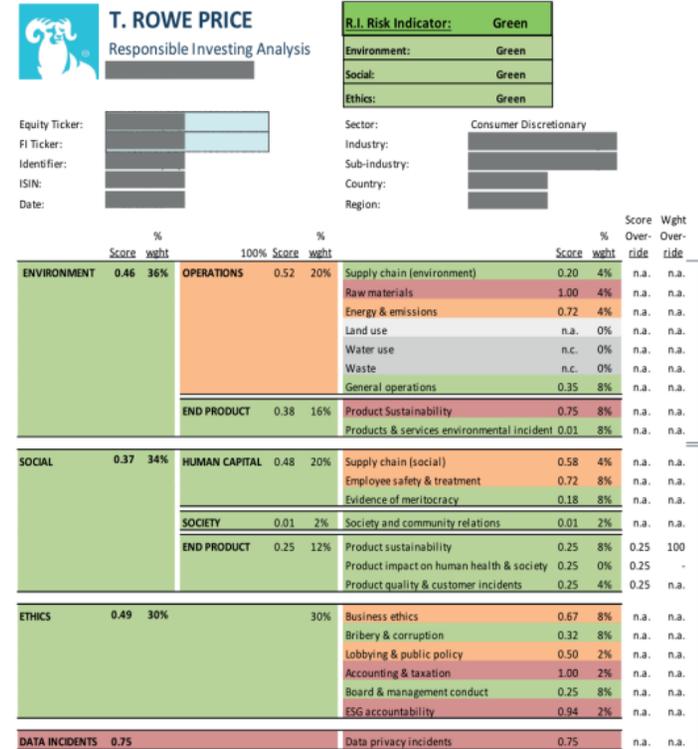
What ZMH Can Do for You

*Our Proprietary **ESG Engagement Dashboard**TM allows you to leverage technology and data to optimize your shareholder interactions.*

Know what could be asked during an engagement	Stay up to date on investor's ESG priorities	Access to 1000+ case studies & detailed analysis
Understand how investors will vote on your ballot	Gain access to 7M NPX voting records & governance policies	Contact information & key players at each firm

CONTACT US TO SCHEDULE A DEMO
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Reference: ESG at T.Rowe Price