

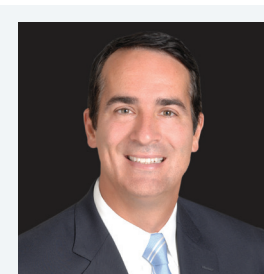
# INSIGHTS

## INVESTMENT

## How Big Data Delivers Solutions to ESG Investors



**Roelfien Kuijpers**  
Head of Responsible Investments



**J.J. Wilczewski**  
Head of Americas Institutional Coverage

As the number of institutional investors focused on impact investing continues to grow, so has the demand for data to help them measure the environmental, social and governance impacts of the companies they invest in.

The overall availability and quality of ESG data has grown in recent years, but so has the number of companies 'green washing' their businesses so that they appear more ESG friendly than they are. That makes the job of analyzing data an even heavier lift.

For nearly a decade, DWS Group has used its ESG Engine to help investors with that task. While it began with relatively few data points, the proprietary software system has incorporated more data as it has become available. Now it analyzes more than a billion data points to evaluate over 10,000 companies whose grades range from ESG True Leader (grade A) to ESG True Laggard (grade F).

"Taking ESG factors into consideration can be hard for investors because you have to deal with so much data, industry trends and analysis," said Roelfien Kuijpers, head of responsible investments for DWS. "You have to look at the long-term trends of the industry and the company, and then you have to analyze the dimensions around the E, the S and the G."

The DWS ESG Engine not only gives a company an overall grade, but it also can drill down to analyze specific criteria, such as the impacts on and effects of climate change or the presence of women on the company's board. In addition, the ESG Engine provides analysis on whether companies are improving or deteriorating their ESG profiles.

"Let's say a company has a 'D' rating," Kuijpers said. "We work with the investee company's management through our corporate engagement practice and will focus on those ESG issues that are important to us and our clients. At some point we may predict that their grade improves as the investee company becomes more proactive in dealing with these issues. So that may give us insight to make an investment decision based on the overall improvement of the company's ESG score."

Conversely, when DWS analysts see a company with a strong ESG Engine grade that starts to deteriorate, they look for other red flags that might indicate material con-

cerns. That's helpful for clients who are looking to ESG investing not only as an ethical endeavor, but also as a means of risk mitigation.

"We saw an example of this last fall. The ESG Engine raised red flags about an investee company, resulting in our portfolio managers selling our investment, which was fortuitous given that the company declared bankruptcy a few months later," Kuijpers said. "ESG data is critical to the investment process, resulting in better-informed investment decisions."

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### PARIS AGREEMENT, U.N. SDGs DRIVE MOMENTUM

The DWS ESG Engine can also measure the impact of a given portfolio based on certain factors. So, for example, it can determine a portfolio's carbon footprint and show how excluding or including specific investments could change that footprint.

That's increasingly important to clients, according to J.J. Wilczewski, head of Americas institutional coverage at DWS. Nearly every conversation with current or potential clients now touches on responsible investing, he noted, a significant increase over just three years ago.

Since 2015, ESG investing has gathered significant momentum, following the Paris Agreement on climate, the publication of the United Nations Sustainable Development Goals and a growing awareness of income inequality both in the United States and around the globe. Last year more than \$30 trillion was invested in ESG assets, a 34%

increase from 2016, according to a report by the Global Sustainable Investing Alliance.<sup>1</sup>

The versatility of the ESG Engine, along with DWS' lengthy investment track record in ESG investing, has helped to differentiate it from other firms entering the sector.

"A typical asset management firm wants to create a product and then go out and sell that product to everybody they possibly can," Wilczewski said. "We take a different approach by making it client-centric. We're putting the client first and then helping them solve for their needs using the various tools that we have."

### NEW ESG INSTITUTIONAL MONEY MARKET FUND

That process begins by focusing first on understanding an investor's values and identifying how to incorporate those values into all aspects of the investor's business. In a discussion, for example, with a large, sustainably focused institutional corporate client with a lot of free cash flow, DWS learned that the company's treasury department had been keeping that money in commercial paper and money market funds without any ESG overlay.

Together DWS and its client decided to create a 2a-7 money market fund that would allow the company to ensure its short-term financial cash strategy aligns with its broader values.

"We had our ESG Engine run through the corporate commercial paper that we would invest in our money market fund, we rated those corporations according to our ESG principles and scoring methodology, and we eliminated the bottom 25% of those from an E, S or G standpoint," Wilczewski said. "And then we had a truly ESG-friendly overlay portfolio and money market solution."

The money market fund, DWS ESG Liquidity Fund (ES-GXX), launched last year as the first money market fund to apply ESG criteria in the United States. DWS has also created bespoke solutions for insurers looking for carbon exposure and climate-risk solutions, and for faith-based investors asking for principles-based investing solutions.

"It's really important for us to be on the same wavelength as our clients," Kuijpers said. "It's about understanding not only their financial needs, but also their values and beliefs." •

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