PURCELL COMMUNICATIONS

Winning the Perception of ESG Investing

An Early Adopter's Guide to Overcoming Stubborn Skepticism

ESG investing (the most common term for investing with values in mind) is growing fast, but it's not without controversy. Advisors, marketers, institutional consultants, and even investment managers have all told us a similar story – that promoting or explaining ESG investments is hard work. If that's your job, you're going to need a plan of attack.

In the course of this series, we've so far tried to clear up the murky ESG terminology, and discussed how to work around the problem of unreliable data that can derail ESG conversations. In this final chapter, we want to drill down to an issue that underlies the others: addressing a skepticism that stubbornly persists around the role of ESG in the markets.

It's a skill that all ESG players will need to develop, and it won't be easy, because in important ways it's counterintuitive to the way professional investors usually talk. But it is essential. Because it's rapidly becoming clear that if you're not keeping up with ESG, you're falling behind.

CONCLUSIONS

- Skepticism lurks when it comes to ESG investing, and some of it is well founded.
- While it's tempting to talk down ESG's uncertainties, doing so only fuels doubt.
- Attack skepticism head-on with this formula: 1) context + 2) examples + 3) follow-through.
- Consistent, effective communication will position you as a trusted voice as ESG investing becomes more widespread.

Tackling the Communications Challenges of Values-Based Investing — A Series

Murky Terminology | Evolving Context | **Stubborn Perception**

This is the final report in our series looking at the three biggest communication challenges for values-based investing.

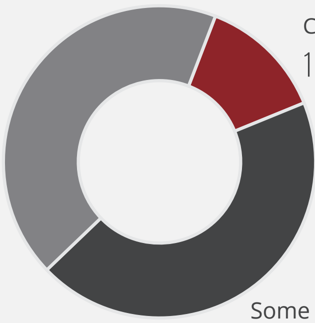
To receive more reports like this one, email us at admin@purcellcom.com.

THE SILENT, SKEPTICAL MAJORITY

Earlier in this series, we pointed to established evidence that growth in ESG investing is substantial and accelerating. The COVID experience has only served to draw more attention to the role of companies in their communities. There is no question in our minds that the momentum behind ESG investing is real, it's powerful, and it's well resourced. But that doesn't mean your clients — or even your own staff! — are on board with it. Yet.

Not Sold Yet
Perceived consistency between company communication and action to meet stakeholder needs

Q: How much, if any, consistency do you see between what companies proclaim (via their purpose, policies, communications, and commitments) and their actual actions in terms of meeting the needs of all their stakeholders (i.e. employees, communities, suppliers, customers, investors, etc.)?



Source: KKS Advisors report on COVID-19 and Inequality: A Test of Corporate Purpose

For many investors, ESG investing simply feels too new. ESG has its roots in the socially responsible investing (SRI) movement, which goes back around 50 years. But that's actually part of the problem. SRI and ESG have meant many different things to different people over the decades. Investment professionals have different ideas about how to invest for impact than they did even 10 years ago. That's why it can be so difficult to separate myth from truth in the ESG space.

We've talked with numerous industry players about this issue, and most have anecdotal stories about their battles with unimpressed skeptics, or established professionals not interested in changing their stripes. As Sarah Cleveland, institutional investment consultant and chair of the Investment and Audit Committee of the Russell Family Foundation, recently told us, "I frequently encounter the idea that [ESG] means you're not a serious investor ... You can show them all the data you want, but the response will be, 'I just don't believe the studies.'"

Intuitively, it's easy to make the connection between investing and positive social outcomes. Past investments in technology and health care, for example, have transformed human lives. But without clear, standardized data to demonstrate positive impact — and we are a long way off from that — ESG investing must fight against a shroud of skepticism.

DRILLING DOWN AND POINTING FINGERS

PurcellCom has been gathering a list of common objections to ESG investing, and our view is some concerns are more legitimate than others. For marketers, consultants, and advisors, it's critical to know the difference.

The ESG Challenge: Myths vs Truths

Investing for ESG means sacrificing returns.	Myth	The performance potential of ESG investing has been proven over and over again, and that has only accelerated in 2020.
ESG is a new and unproven way of doing things.	Myth/Truth	ESG investing concepts have been around for 50 years, but it has been hard to construct data-based ESG strategies until recently.
ESG is hard. It means changing the way you do things, and there is a learning curve.	Truth	ESG investing demands new product categories, new data sources, new analytical approaches, and new communication approaches.
ESG focuses on the wrong things — social ideas that don't have anything to do with money.	Myth	In lots of cases, firms with poor records on environmental, social, and governance issues turn out to be poor long-term investments.
ESG impacts can't be measured.	Myth/Truth	There are numerous ways to measure ESG impacts, and more are being developed all the time. What is missing is broadly accepted standards about those measurements.
We can't create a "perfect" ESG portfolio, and half measures leave us vulnerable to criticism.	Truth	It can be difficult to set expectations with impatient investors or communicate the long-term nature of these investments.
People say they care about social issues, but no one's doing anything meaningful.	Myth/Truth	Plenty of powerful, influential people are very serious about ESG. But not *everyone* who says they are follows through with real action.

While all of these objections are important, it's the last two that are the most entrenched and problematic. Even within the ESG community, there is still a lot of distrust and finger-pointing. Regulatory bodies like the SEC and DOL worry that asset managers are "green washing" — claiming their products are ESG-oriented without really changing the way they invest. Asset managers don't entirely buy the ESG data they get from companies or third-party data suppliers. Advisors don't think their clients are interested, and everyday investors are generally skeptical of the financial industry as a whole.

> *"Many [professional] investors expressed concern that their peers may be hiding behind ratings as a quick fix or box-checking exercise... Investors perceive the reason such shortcuts are taken to be, at least in part, a rush to meet growing demand for ESG investment products, and point out that this risks quickly-created, poor quality products undermining demand longer-term."*
>
> *– SustainAbility, Rate the Raters 2020*

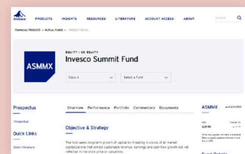
TIME-TESTED STRATEGIES … THAT DON'T WORK

As we noted in our last paper, the investment industry is used to tackling disagreements of perception with data. But that's not a workable strategy in ESG investing, where the data is inconsistent and underdeveloped.

Given this reality, lots of professional investors and advisors use classic communication approaches when they discuss ESG, making formal, authoritative statements about their investment choices, or simply declining to talk about issues that they can't definitively describe. Those approaches are meant to build investor confidence, but they can backfire when engaging the ESG investor. Here are a few of the trends we've seen:

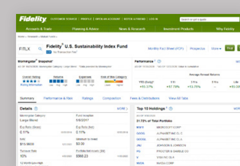
1. IGNORING ESG ISSUES ENTIRELY

Numerous portfolios, like Invesco Summit Fund, will refer to ESG factors in their prospectus but do not explain how those factors impact investment choices or outcomes in their investor communications.



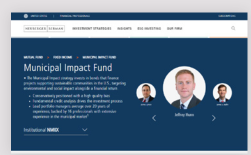
2. PRESENTING ESG DATA AS DEFINITIVE

ESG portfolios often choose a data source for ESG ratings and rankings. Too often, that data is presented as a definitive source for making ESG investment choices, including index products like Fidelity U.S. Sustainability Index Fund. Rarely will a firm discuss any of the glaring gaps in ESG data, or update investors on changes in that data.



3. REPORTING ON IMPACT DATA SEPARATELY FROM FINANCIAL DATA

A good example of this is the reporting for Neuberger Berman's Municipal Impact Fund. The fund's shareholder report discusses financial issues; its impact report provides impact case studies. And never the twain shall meet.



We don't present these examples as criticisms. ESG investing demands new approaches, and many companies are actively trying to learn how best to inform their ESG investors. But we are concerned that these communications standards only serve to enhance skepticism and misinformation at a time when investors are seeking clarity about what it means to invest with an ESG focus.

TURNING 🙄 INTO 🤔

Without great data to rely on, industry communicators will need to demonstrate authenticity by using a different, but also proven, communications approach: telling good stories in proper context. Let's talk for a bit about what an authentic and successful story looks like.

STEP 1: THE EXAMPLE


IMPROVED COMMUNITIES THROUGH AFFORDABLE HOUSING DEVELOPMENT

The best ESG reporting starts with a case study: examples of companies you invest in that generate a specific positive benefit.

Case studies are easy to create and are already fairly common in all kinds of ESG-oriented reporting. But they don't stand on their own terribly well, because you can create a story about anything. Case studies need to be presented with context and follow-through, or they risk coming off as inauthentic.

STEP 2: CONTEXT AND FOLLOW-THROUGH

Here's the formula for demonstrating authenticity when you tell stories about ESG.

EXPLAIN YOUR WHY	+	EXPLAIN YOUR HOW	+	THE CASE STUDY	+	SHOW YOUR GROWTH	+	SUSTAIN THE CONVERSATION
What are your values and motivations as a firm?		What is your strategy? Do you have any themes or focus points?		 IMPROVED COMMUNITIES THROUGH AFFORDABLE HOUSING DEVELOPMENT		Show how you are taking up new standards as they evolve.		Tell clients what you've said in the past and what you will say in the future.

The why and the how are your context. They set defined expectations around what you are aiming to achieve. Clear whys and hows also help to clarify what the case study is an example of. Taken together, the case study in context gives investors what they need to determine suitability and makes it easier for them to put themselves in the picture.

Demonstrate your willingness to follow through on your ESG commitments by consistently reflecting on where you've been and where you're going. This is an especially hard challenge in a financial field that has relied on repetitive messages and confident declarations of skill. But ESG is a rapidly evolving field, and your investors know that. Confidence looks foolish when new ideas take over, so talk about how changes in the industry are impacting your thinking and your strategy.

Finally, your clients will be evaluating you over time, so treat your ESG communications as a repeated conversation, rather than a snapshot in time.

The formula is designed to highlight the journey you are on, as well as the conclusions you have come to. Showing your work in this way allows you to communicate effectively in an environment without strong data, and it staves off accusations of green washing.

PROXY VOTING REPORTS – A HIDDEN GEM

> *For better or worse, marketing and portfolio reporting only capture so much client interest, and regulatory limitations can make it difficult to make their content special. But there is an underutilized way to powerfully convey your ESG skillset: reporting on your proxy votes.*
>
> *Many asset managers and advisors rarely talk proactively about voting proxies on the companies in their portfolios. But proxies exist to provide shareholders with a voice on key company decisions. Voting those proxies, and in turn explaining how and why you voted as you did, will greatly amp up your reputation among your ESG-focused clients.*

CONCLUSION: TRUST HAS NEVER BEEN MORE IMPORTANT

We concluded our last paper with the following:

The issue is trust.

- ESG investors want to contribute to a better future, and they want to trust that their advisors and asset managers are similarly motivated.
- ESG investors want to provide their financial support to firms that share their values, and they want to trust that asset managers know how to identify those companies — and are working to learn how to do it better.
- ESG investors want to believe they are part of the solution. Asset managers and advisors who give them those stories close the loop and cement the trust relationship.

At the risk of being redundant, we want to reiterate the importance of that prescription. The adoption of ESG is a compelling trend, but it's also a major change. It will take time for the markets as a whole to develop a consensus about what ESG investing is, and how to do it. Different subgroups of the market will come to that consensus at their own pace. Your ability to consistently tackle the challenges of perception — to build trust in your commitment and capabilities as this consensus coalesces — will be key to positioning you for success.

> *"[ESG investors need to know] 3 things. The first is clarity about the purpose of the investment strategy. Second, clarity about the tools that would then be applied. ... Third, the strategies need to be connected to changes in the real world."*
>
> *– Sean Gilbert, Director of Member Engagement, GIIN*

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