Assets and awareness of Responsible Investment continue to rise – yet asset managers still struggle to express their often-good intent through their brand.

Hirschel and Kramer (H&K) Responsible Investment Brand Index 2019

October 2019

220 European asset managers analysed for their ability to build responsible investment approaches into their brands.

The flurry of **Public Awareness around ESG** does not yet translate into visible action within the asset management industry.

While there is some noticeable progress, only **29** asset managers consciously link drive towards greater societal value through their Purpose, and only **five** of these do it through an impactful expression of their Purpose.

Recent years reveal an unmistakable trend towards responsible investing and growing awareness of the importance of Environmental, Social and Governance (ESG) investment. Now in its second edition, the H&K Responsible Investment Brand Index (in short RIBI™) has once again analysed over two hundred European asset managers with a view to validating whether their good intent is also communicated through their brand. The index evaluates actual commitment against follow-through in brand architecture and offers even sharper insights.

In mid-August 2019, Business Roundtable, the largest US business group, replaced their corporate goal of maximising shareholder value with a more inclusive vision calling for targets beyond profit.[1] Even before this announcement, ESG has become an increasingly popular theme. A Global Sustainable Investment Alliance (GSIA) review highlights the importance of responsible investment in numbers: back in 2018, global sustainable investment assets reached $30.7 trillion – up 34%.[2] In line with this increase, media coverage and hence public awareness have increased accordingly by over 20%[3]. Close to 400 ESG-focused funds have been launched in 2018 alone[4], making it a challenge for asset managers to stand out and be recognised for who they are.

Larry Fink (CEO of BlackRock, the world's largest asset manager) stated in an open letter that "society is demanding that companies, both public and private, serve a social purpose."[5] Regulators, companies and media outlets have picked up on this message both across Europe and the world. For instance, earlier this year the UK Financial Reporting Council (FRC) strengthened the Financial Reporting Code by setting higher expectations for investor stewardship policy and practice. The Code focuses on how effective stewardship delivers sustainable value for beneficiaries, the economy and society at large[6].

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[1] Financial Times, August 19 2019, https://www.ft.com/content/3732eb04-c28a-11e9-a8e9-296ca66511c9
[2] IISD, April 16 2019, https://sdg.iisd.org/news/gsia-report-finds-increase-in-sustainable-investing/
[3] Google Trend and Public Media Analysis for "ESG mentions", comparing 2017 to 2018
[4] Morningstar
[5] New York Times, January 15 2018, https://www.nytimes.com/2018/01/15/business/dealbook/blackrock-laurence-fink-letter.html
[6] Financial Reporting Council, January 30 2019, https://www.frc.org.uk/news/january-2019-(1)/frc-strengthens-stewardship-code

While a positive trend towards more ESG and positive impact focused investment approaches is evident, it is important to stress that this increased focus on thinking beyond monetary returns is not unique to the financial market, nor is Finance the sector that leads the movement. Instead, it is driven by much deeper macro trends. A younger, technology-enabled consumer base is demanding increased responsibility within value chains, across industry sectors.

The dynamics we observe make the connection between responsible investment and asset manager brands even more meaningful and thus of the utmost strategic importance for any player in the industry. Now in its second year, we find evidence-based confirmation that a directory such as the Responsible Investment Brand Index is more relevant and timelier than ever.

RIBI 2019 - A MORE REFINED INDEX

The H&K Responsible Investment Brand Index has been developed to identify which asset managers act as responsible investors and commit to sustainable development to such an extent that they put it at the very heart of who they are: ie. into their brand.

The index aggregates the analysis of all 220 asset managers operating in Europe as listed in the Investment & Pensions Europe Journal Top 400 ranking as of December 31st, 2018. Interestingly, most of these companies have signed the Principles for Responsible Investments (PRI), the world's leading proponent of responsible investment.

In essence, the H&K Responsible Investment Brand Index assesses two aspects: "Commitment", by which we mean asset managers' commitment towards responsible investment and "Brand", which analyses to what extent sustainable development lies at the heart of asset managers' identity. The index takes the view that genuine involvement is demonstrated through (1) concrete actions such as, among others, committing to the Principles for Responsible Investment, or publishing proxy voting activity ('Commitment measure') and (2) the intent which emanates from within asset managers through their brand, best visible in openly and transparently communicated vision and purpose statements ('Brand measure').

As the industry evolves, so does the Index. Expanding on the assessment methodology established in 2018, the updated RIBI edition takes additional factors into consideration to deliver a more refined perspective on how well asset managers convey their good intent through their brand. These are incorporated on both assessment dimensions:

- **Commitment** (vertical): the collective activities beyond signing the PRI are evaluated. Also, the proxy voting policy and how activity is reported, and similarly for engagement. All in all, ten criteria are used to assess Commitment.
- **Brand**: (horizontal). In addition to a 7-step purpose statement evaluation method[7], an external, value-based analysis reveals how coherently a well-articulated purpose statement can be transferred into everyday actions and corporate culture. All in all, eight criteria are used to assess Brand.

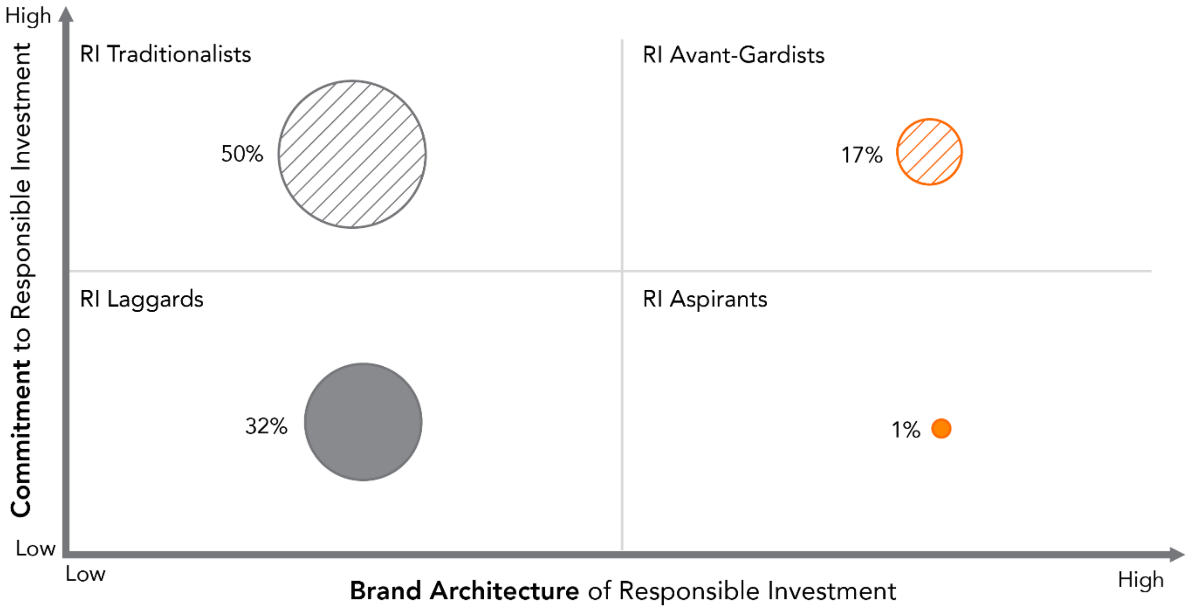
In addition, the research was enriched by investigating the point of view of asset owners and manager selectors by means of qualitative, in-depth interviews with senior representatives of several major institutions throughout Europe.

Subscribers to RIBI Insights+ will find the detailed results as part of an extended report. For a more detailed methodology overview and description, please refer to the methodology section on www.ri-brandindex.org.

[7] The Guiding Purpose Strategy, A Navigational Code for Brand Growth, Kramer, 2017

The flurry of public awareness around ESG does not yet translate into action for the asset management industry

Figure 1: RIBI™ Category Ranking



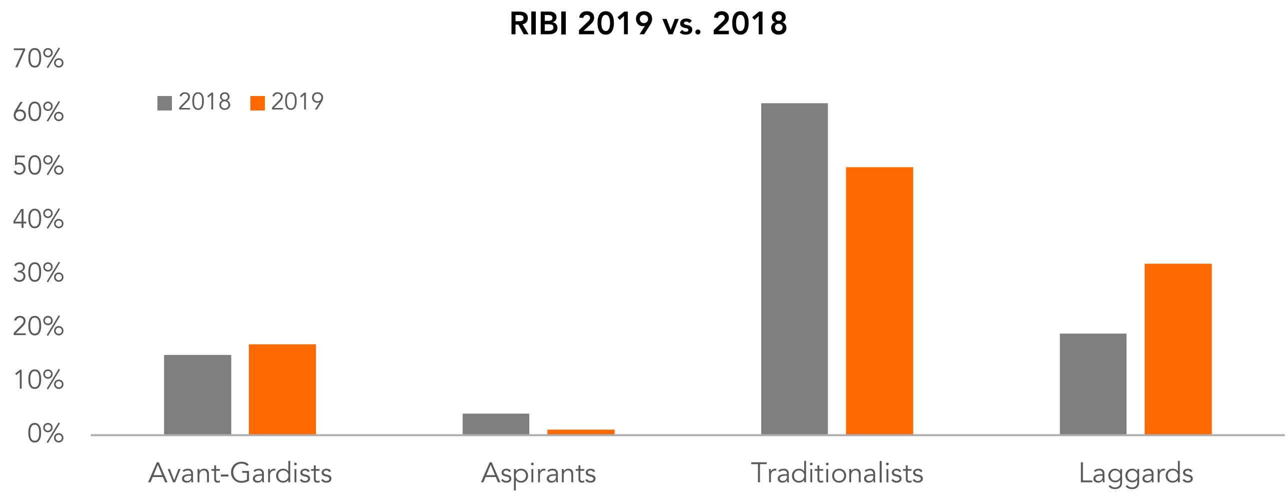
Half of all evaluated asset managers (109) fall into the Traditionalist category, committing to Responsible Investment but not translating this commitment into their brand. A third (72) are neither committing to Responsible Investment nor demonstrating RI activities through their brand.

Only 17% are Avant-Gardists, both committing and projecting their efforts in their brand. These companies have been notified and awarded a special RIBI Avant-Gardist™ Logo as a demonstration of appreciation. The Avant-Gardist Logo is awarded free of charge and can be used as a public identifier for leadership in the Responsible Investment Brand Index. A small number (1%) of asset managers, the Aspirants, demonstrate signs of moving into the category of Avant-Gardists.

While it is comforting to note that the number of Avant-Gardists increased slightly (+2%) on last year's results, at the same time it is disappointing to see the numbers of Laggards increasing (+14%), at the expense of the Traditionalists (-12%). When compared to last year, the combined categories of Avant-Gardists and Aspirants (representing a collective 18% in 2017 vs 19% in 2018), as well as Traditionalists and Laggards (combined 81% in 2018 vs. 82% in 2017) remain largely the same. In other words, while generally ESG assets under management are growing, public awareness is on the rise, media volume is burgeoning and regulatory demand increasing, the industry has made little progress in expressing its good ESG-intent through brand.

> "A few houses are much more advanced than others and do it really well."
> **David Hochuli, Senior Analyst Equity Manager Research at UBS Wealth Management.**

Figure 2: Year-On-Year RIBI Category Evolution



"So, while public and regulatory pressure and a clear exposure to media is on the rise, there is no apparent traction yet in how asset managers connect their RI actions to their brand, and more importantly, to a greater social good – ie. their purpose," explains Markus Kramer, Co-Founder of the H&K Responsible Investment Brand Index, partner at boutique brand consultancy Brand Affairs and author of the "The Guiding Purpose Strategy, A Navigational Code for Brand Growth."

Even if adjusted for a tighter methodological approach, these results point to an underlying issue: the industry still thinks and works by and large in numbers only.

"Integrate Responsible Investment in the investment process seamlessly and don't make this just an add-on."
Peter Wallach, Head of the Merseyside pension Fund

"It is interesting to see that the asset owners and fund selectors we have interviewed actually share the same views, using a different lens to come to this conclusion" states Jean-François Hirschel, Co-Founder of the H&K Responsible Investment Brand Index, and CEO and Founder of H-Ideas, a company specialised in strategy and positioning in the financial industry. While they recognise the enormous amount of work done and progress made by asset managers, they still feel that responsible investment is not seamlessly integrated into the investment process and often looks like an add-on, while the communication around it lacks clarity about what the manager is doing and why" adds Hirschel.

"If an asset manager really believes ESG improves what it does, and it is not detrimental to its investment process, then there shouldn't be a distinction between ESG products and the flagship product range."
David Hochuli, Senior Analyst Equity Manager Research at UBS Wealth Management.

Linking Asset Management and greater societal value in a Purpose: only 29 out of 220 Asset Managers consciously reflect the intent within their brand

91 managers in the sample (41%) - express a Purpose. This demonstrates that reflection is taking place, but the industry doesn't yet fully deliver what the public is looking for: 11 managers reached the maximum qualitative rating of what truly qualifies as a well-articulated Purpose. On a positive note, 29 managers (13%) have a Purpose connected to societal ambitions. Only five managers managed to craft and align a very well-expressed Purpose that clearly goes beyond monetary returns and addresses greater social good. "Even though five is a small number, this is an improvement on last year when we found only three in this category", explains Kramer.

> "I would like to see them braver. They are hesitant to take a stance and to make themselves unique and different."
> **Willemijn Verdegaal, Co-Head Climate & ESG Solutions at Ortec Finance**

"For the first time this year, we looked at a value system and found that 97 managers (44%) actually express a value system, of which 50 achieve an above-average qualitative assessment of said value system. Here again, there is a "but": only 28 of these, or 13% of the total sample, show some form of societal reflection through their value system", closes Hirschel.

Conclusion

Putting this all together, the industry is making slower progress than the level of media noise would indicate. Public pressure to use finance and investment as a lever to create greater societal good will continue to increase. Clients are becoming more knowledgeable and sophisticated in terms of sustainability. Asset managers will have to find answers to these developments. According to asset owners themselves, many areas remain construction sites: integrating ESG seamlessly in the investment process and communicating better about what asset managers do, why they do so and what the measurable impact is, to name but a few. A significant issue in this regard is the lack of standards that hamper the alignment of most asset managers.

> "The main issue is that there isn't any standard."
> **Eberhard Haug, Director Asset Management – Liquid Assets at Energie Baden-Württemberg AG (EnBW)**

Responsible Investment and Social Purpose is a fantastic opportunity for investment managers – for the following three reasons:

First, it is important to recognise that in a climate where their reputation is at stake, asset managers can answer positively to a societal demand. This is a unique opportunity to send a message with the tenor "we have understood", rather than just pushing products to the market, as asset managers have so often been accused of doing. The Responsible Investment Brand Index shows that the magnitude and importance of this opportunity has not yet been fully grasped by the industry.

Second, is that in a highly competitive industry, a manager expressing clearly what it stands for and genuinely linking its efforts beyond profit is a way to strengthen differentiation and build recognition and trust. A clear and well-defined brand expression can create a strong, positive competitive differentiation[8].

Third, and perhaps most importantly, ESG and purpose-driven approaches to asset management can collectively make a tremendous contribution towards a better world for us all. Every asset manager is encouraged to take these findings to heart - all the more so as all of the asset owners and fund selectors interviewed unanimously confirmed that responsible investment is here to stay and becoming a norm in the investment industry – for good reasons, we believe.

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[8] Branding for Asset and Wealth Managers: the secret treasure is in your DNA", Jean-François Hirschel, Markus Kramer, June 24th 2019. https://www.h-ideas.ch/branding-for-asset-and-wealth-managers-the-secret-treasure-is-in-your-dna/?lang=en

For further insights

It is paramount for asset managers to fully and genuinely integrate sustainability into their global business strategy. The Responsible Investment Brand Index takes the view that the backbone of a successful Responsible Investment strategy is the ability to project actual commitment to Responsible Investment through the brand. If you would like to incorporate deeper insights or indeed a tailored assessment into your strategic thinking, then please do get in touch.

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About the Index

The H&K Responsible Investment Brand Index (RIBI™) has been developed to find out which asset management companies act as responsible investors and commit to sustainable development to the extent that they put it at the very heart of who they are: ie. in their brand. The index focuses on asset managers active in Europe. It aggregates the analysis of all 220 European asset managers listed in the Investment & Pensions Europe Journal Top 400 ranking as of December 31st, 2018.

Methodology

The methodology assesses both "Commitment", which refers to the commitment made towards responsible investment and "Brand", which analyses to what extent sustainable development lies at the heart of identity. The index takes the view that genuine involvement is demonstrated through (1) concrete actions such as, among others, committing to the Principles for Responsible Investment, or publishing proxy voting activity ('Commitment measure') and (2) the intent which emanates from within asset managers through their brand, best seen in openly and transparently communicated vision and purpose statements ('Brand measure'). The quality of the expression of Purpose is assessed through a documented 7-point methodology. The index analysis is complemented by qualitative interviews with asset owners and fund selectors and quantitative surveys through LinkedIn. A full description of the applied methodology is available on the H&K Responsible Investment Brand Index web site at www.ri-brandindex.org

About the Authors

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Jean-François Hirschel is the founder and CEO of H-IDEAS, a company which aims at re-establishing trust in the financial world. His professional expertise lies in strategically positioning financial services companies at brand and product level. Hirschel has held senior leadership positions at Société Générale and Unigestion. He holds a MSc from EPFL Lausanne, Switzerland, and has profound knowledge and experience in Institutional, Private and Retail Banking & Asset Management.

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Markus Kramer is a partner at Brand Affairs, a specialist consultancy with expertise in strategic positioning and brand building. He holds an MBA from the University of Oxford and is a visiting Senior Fellow in Strategic Brand Management at Cass Business School London. Kramer is author of the book *The Guiding Purpose Strategy, A Navigational Code for Brand Growth.*

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