

## THE AUSTRALIAN


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# Social impact a major factor for managers

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### EXCLUSIVE

By **DAMON KITNEY**, VICTORIAN BUSINESS EDITOR

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One of the top global executives of the group providing benchmark indices to international financial markets expects more active managers in Australia to integrate environmental, social and governance performance into their benchmarks after the company struck its first deal in the Australian market.

S&P Dow Jones Indices has linked with a new \$100 million Melbourne-based funds management and philanthropic group, Australian Standfirst, which is chaired by Australian Industry Group chief executive Innes Willox, to use the ESG version of its widely tracked global mainstream equity indices.

The S&P Global LargeMidCap ex-Australia and New Zealand ESG Index will be the benchmark for Australian Standfirst's Global Core Fund, elevating environmental, social and governance factors as an enforceable performance requirement for managers.

"We feel these indices are going to be popular for products that directly track them," S&P Dow Jones Indices managing director and global head of ESG Reid Steadman said.

In the first half of the year, US funds which consider environmental, social and governance factors in their investment strategies attracted \$US8.4 billion (\$12.3bn), up from the previous annual record of \$US5.4bn in 2018, according to data from Morningstar. A range of Australian active managers have ESG investment strategies but none before Australian Standfirst have linked with S&P Dow Jones.

"We have seen (ESG) ETFs launched in the US and Europe. But we also feel that active managers are going to use these. We have had some other major investment banks come to us wanting to use these indices as a starting point for new strategies or active strategies," Mr Willox said.

He said the integration of ESG values across investment decisions should no longer remain exclusive to philanthropic, impact or specialist asset managers but should be “business as usual for all Australians”.

“Recognising that our key strengths are to simplify global investing and to elevate funds management for Australians, it is obvious to us that it is not only a distinction but a commercial requirement that we now sit ESG integration alongside the equally important drivers of risk management and investment returns,” Mr Willox said.

The move comes as some companies are pushing back on ESG demands. Harvey Norman executive chairman Gerry Harvey this week warned superannuation funds who were advocating for “box ticking” corporate governance requirements risked losing money for their members by undermining the profitability of listed companies.

Australian Standfirst’s chief investment officer is Stirling Larkin. Following the S&P deal, Daphne van der Oord — head of Australia for S&P Dow Jones Indices — and her New York based ESG colleagues — will join Australian Standfirst’s investment committee.

In May, S&P Dow Jones Indices launched the S&P500 ESG Index, targeting the benchmark 500 index. It excluded companies that didn’t meet certain ESG criteria. The goal of the ESG index is to closely replicate the risks and returns of the S&P 500.

Controversially, social media giant Facebook has been excluded from the index, as well as other big names, including Wells Fargo, Oracle and IBM.

“In the case of Facebook they did quite well in certain metrics. For example, in environmental they got very high scores. But when you think about ESG this concept of materiality comes up a lot. We need to look at intangible factors that make up ESG,” Mr Steadman said.

“For Facebook it was the social and governance realm. In those areas they have struggled in their scores. This is related to management of data privacy.”

#### **DAMON KITNEY, VICTORIAN BUSINESS EDITOR**

Damon Kitney has spent two decades in financial journalism, including 16 years at T Australian Financial Review in a variety of writing and editing roles in Sydney, Melbourne Canberra and Perth, including 5 [.Read more](#)



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