

SRI/ESG: IPM Announces Vote Disclosure Website, Proxy Votes Ahead of General Meetings

Stockholm (HedgeNordic) – On the heels of its announcement of a new website service to support its ESG implementation effort, Anna Frimodig (*pictured*), Chair of Informed Portfolio Management (IPM)'s ESG Committee, expounds to HedgeNordic on the natural applicability of ESG to IPM's objectives.

Responsible Investment, as IPM explains in its latest press release, is an essential component of the fund's philosophy. IPM strongly believes that integrating ESG considerations into the investment process, and corporate governance into how the company is run, will lead to long-term benefits for investors, as well as for financial markets and society.

"Our investors value that we integrate ESG considerations in our investment process for managing equity portfolios," comments Serge Houles, Head of Client Portfolio Management at IPM. "Not only do we exclude companies in violation of international guidelines and conventions on the environment, human rights and business ethics such as the UN Global Compact, but we also apply a 'best-in-class' approach using a proprietary optimizer to identify companies with similar characteristics but in compliance with the norms."

"The reason why investors choose our investment strategy beyond the investment concept itself is because of the ESG incorporation," adds Anna Frimodig. "Being a systematic manager, this part of the process is well defined and consistently applied across our portfolios, both for the quantitative and qualitative overlay. We also endorse transparency with responsible investments."

A New Tool...

The commitment of IPM to ESG, which is a signatory to the UN Principles for Responsible Investment (UNPRI) since 2010, goes beyond the investment process. The Fund is also an Active Owner engaging with companies violating the norms with the objective of having them adopt better corporate governance standards. To this end, IPM has developed a website service in collaboration with Institutional Shareholder Services Inc. (ISS) to communicate how it intends to vote ahead of general meetings. "This brings our ESG initiative to another level as it increases the transparency towards our investors and invested companies, but also hopefully encourages others to follow our path leading to collectively promote better standards," says Ms Frimodig.

The addition of the vote disclosure website service brings transparency to a new level by allowing investors and other interested parties to continuously access information on how IPM will vote – even before meetings. This follows already regular communication on its website of its engagement efforts and how it votes at general meetings following strict corporate governance guidelines.

...For a Fundamental Commitment

IPM actively addresses every facet of ESG – whether responsible investment, corporate governance, social or environmental concern – from both quantitative and qualitative standpoints. In its quantitative process, for example, it uses factors that reduce the portfolio weight of companies that apply aggressive accounting, which typically reflects weaker governance standards. Its qualitative

screening addresses all ESG aspects based on compliance with international norms. “The one aspect that will be the most dominant is the qualitative screening and the engagement efforts, as violations of norms can lead to the eventual exclusion of a company from our portfolios if the engagement fails,” says Ms Frimodig. IPM also engages in Corporate Social Responsibility through e.g. donations, given its philosophy of endorsement of responsible conduct at the firm level.

Nuance and Clarity

But does Ms Frimodig find that ESG standards are not in themselves uniform and can sometimes conflict with each other, particularly in terms of investor prerogatives?

“ESG standards are indeed not uniform, as even though there are international norms, they are not uniformly endorsed by investors who may also have their own norms,” she says, explaining that the most common discrepancy seems to be between local and international law, where the benefit of international norms is that they are agreed upon by most countries and are therefore the most neutral yardstick for investors with global holdings who want to be consistent with their approach.

“At IPM, for example, we support the principle that companies have a duty to comply with international norms, even though they are not legally obliged to do so, and have applied the same approach to developed and emerging market holdings,” Ms Frimodig explains. “Most investors tend to take the same approach as we do, which in itself is helpful for collaborative action and mitigating the possibility of there being conflicting investor prerogatives depending on their home country. Obviously there is room for interpretation in some specific cases, and consequently investors take different approaches on how they act in terms of the universally agreed standards. Within environmental standards and climate change, for example, some investors exclude high carbon emitters while others take the engagement approach, hence continuing to invest in those companies that go against what other investors are trying to achieve.”

At IPM, at least, its interpretation is now clarified to investors well in advance.