NAVIGATING THE NORTH AMERICAN ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) TALENT LANDSCAPE

Following in Europe's footsteps, ESG investing has been widely accepted and, more importantly, prominently promoted within the North American asset management industry since 2016 (and, in some cases, earlier for dedicated specialists). The governance aspect (or the "G" of ESG) has been the primary focus for most managers (many arguing they have been doing it for decades); however, it's social justice, carbon emissions and board-level governance initiatives that have collectively captured the focus of asset owners around the world seeking to effect change with their massive pools of capital and stakeholder interests. How do asset managers respond to these imperatives on behalf of their clients (the asset owners)? What makes an asset management firm particularly competent in this area while simultaneously generating positive returns for investors?

First, let's explore some of the reasons North American asset managers are shifting into high gear in the ESG space:

1) Clients are demanding--and, in some cases, are regulated by law--that ESG factors be at the forefront of the investment process, and that they preferably work with asset managers who have a track record of integrating ESG factors into return streams. RFPs are asking the questions and asset managers are responding.

2) The Work Force and Millennials: the overwhelming presence of millennial talent may certainly have an influence on the magnitude of ESG initiatives. Millennials, veterans, women, people of color, people with disabilities, people with different socio-economic backgrounds—asset managers are highly focused on finding ways to hire and retain their own talent as a reflection of their investing ethos, and how that ethos is expressed through portfolios and within their own company culture on behalf of their clients.

3) Investment Rationale: Companies have come to the conclusion that there is a strong investment rationale behind integrating ESG.

Many firms have already committed themselves as UNPRI signatories, providing a framework for managers to be more accountable to ESG initiatives. Moreover, employees of asset managers are holding their employers accountable to embodying ESG initiatives within the fabric of their own culture—a culture that is deeply embraced by Millennials. Thus, money managers have come to understand the importance of having ESG criteria in their own DNA.

We believe from recent ESG search experience that a primary key to implementation of ESG is the ability of an asset manager to navigate the ESG talent landscape. While our work in ESG is by no means conclusive, we have developed observations about the ESG talent pool from our search activity which includes mapping competencies, areas of focus and skill sets critical to success at any stage of implementation. Depending on the firm, some of these talent buckets may overlap, some may be partially present, and some may be nonexistent.

Before determining who to hire or promote, the next set of questions to ask is: What are we trying to accomplish as a manager in ESG? Are we just at the beginning (1.0) or are we becoming more sophisticated and progressive (2.0) and how progressive do we want to be (3.0)?"

Casey Clark CFA, Head of ESG Investments, Rockefeller Capital Management states, "The asset management industry is heading toward the 3.0 scenario, where ESG analysis and engagement is seamlessly integrated with traditional investment processes. Consequently, the key skillset of the future will be a combination of ESG knowledge with fundamental analysis, quantitative research, or shareholder engagement expertise."

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VERSION 1.0

Most asset managers in North America are at this level, where they have appointed an ESG "leader" internally. Often this is an individual already working as the asset manager, typically in the corporate engagement, governance and/or proxy voting area. This individual is often "recast" as the ESG expert and spokesperson. This leader is typically not an investment professional; however, they are charged with defining ESG strategy and working internally to develop and integrate the strategy across the firm at a macro level, which usually includes investments, distribution, marketing and product teams. While valid, there is often a gap between strategy and actual investment implementation.

VERSION 2.0

Few North American managers have reached, or have even contemplated, version 2.0. This next growth inflection point tends to be expressed in the form of dedicated ESG resources, ESG research analysts (imbedded in the core investment teams), policy leaders, engagement leaders, thought leadership, product development and the implementation, connection and reporting between investment integration, return streams and strategy.

VERSION 3.0

A rare breed in the U.S., version 3.0 is the future state of ESG in which all investing seamlessly embodies ESG and all investment factors within the same people/team. This is a state where it won't be necessary to have a separate ESG team, but one team embodying all investment processes. According to Dinah A. Koehler, ScD, Executive Director Sustainable Equities at UBS Global Asset Management, "Deep green SI (version 3.0) requires multiple different tacks: engagement/activist investing, which requires many people; integrating ESG into valuations which requires understanding the dynamic of ESG risks, which is not merely an accounting exercise but fundamentally a risk management exercise. In short, risk and opportunity needs to be reframed, expanded. All three are required to successfully pursue impact investing: a different sense of the opportunity set and performance evaluation, a different form of engagement with companies, and a deep understanding of what ESG risks and opportunities are, where they manifest and how companies can most effectively pursue them to build a competitive edge."

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Dinah A. Koehler, ScD
Executive Director Sustainable Equities
UBS Global Asset Management

Determining where you are and where you want to go is the first step. From there, ESG initiatives might involve a top-down strategic push across the organization offering guidelines, or it might be fundamentally implemented from a bottom-up (and/or top down) process. It might involve a full commitment to integrating ESG factors throughout every strategy managed, one or two strategies focused on full ESG integration, or something in between. There is no right or wrong expression; however, determining who you are, where you want to go and what you stand for in the ESG investment landscape will be critical to differentiation.

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Rockefeller Capital Management

Kathryn McDonald of Rosenberg Equities opined, "No matter the level of ESG integration--light touch or heavy impact--it is important to understand how ESG ideas may work to reinforce or contradict the 'natural' positioning of portfolios. By focusing on the intersection of ideas, ESG professionals can play an invaluable role in building firm-wide confidence and achieving better investment outcomes."

Once you have determined how you will apply ESG within the business, it's critical to understand the talent available to execute ESG investment initiatives. Kingsley Gate Partners has identified three main areas of ESG Leadership competencies and skills. While these areas are not intended to cover every permutation that exists, we have observed that the North American ESG talent pool roughly falls into these three competency areas. We have endeavored to provide descriptions (below) of these talent pools, as well as calculations based on what percentage of the ESG talent pool we have identified embodies each of these competency areas.

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Rosenberg Equities

How does a firm achieve version 2.0? Some investment managers are criticized for simply "greenwashing" their ESG talent efforts by recasting the same proxy voter/governance professionals as ESG investment experts. This is common in version 1.0 and is a sensible starting point. Managers are being put under the spotlight to do more. It is becoming more critical to "up one's game" to demonstrate mastery and commitment. The ability to address RI/Sustainable finance end-to-end (from a client perspective) also includes the ability of professionals from all three competency areas to effectively interact with colleagues in product, marketing and distribution.

"I've seen a major firm shift courses over the past year when they realized the component pieces were not connecting well, not surprisingly because of the "grassroots" way in which some asset managers address this space in the first place," says Amy O'Brien, Head of Responsible Investing at Nuveen Investments.

ESG STRATEGY LEADERS

These are individuals focused on setting firmwide ESG policy (e.g. commitment to becoming UNPRI signatory, etc.) and leading and developing dedicated ESG resources (e.g. ESG analysts, quants, etc.). In short, this type of profile tends to act as the "face of the firm" with respect to clients and external parties on all ESG matters, engaging in thought leadership and often speaking at conferences. Internally, this individual works at a macro level to drive and tie policy to internal human capital programs and high-level investment policies (across asset classes with various asset class leaders) that align to PRI initiatives, product development, and the development of proxy voting guidelines, among other ESG initiatives. They have an established track record of overseeing policy, guidelines, defining materiality and evaluating outside resources and partnerships. Often, these individuals have some background in non-profit, NGOs, industry research think tanks, academia, or have worked in the sustainability field—often not previously tied to investment firms.

This cohort group represents 50% of the Kingsley Gate Partners ESG talent pool.

ESG INVESTMENT LEADERS

These individuals are tasked with the development and integration of ESG investment factors in a fundamental, bottoms-up style. The establishment of an ESG investment framework, as well as the ability to tie material ESG factors and ratings to drive alpha or reduce risk through security selection, is central to this profile. Often these individuals report directly to the CIO(s), and may have dedicated quants or fundamental analysts who are devoted to analyzing data sources and/or developing proprietary factors complementing outside data sources to drive at key materiality concerns. In short, these individuals identify risk and uncover opportunities within ESG while striving to generate alpha (connecting ESG to valuation). These leaders also manage ESG reporting and research. They act as a key backbone of the investment process. Many professionals have a track record of actively managing ESG funds and/or launching new ESG funds. At their core, they are investment professionals who have layered in expertise with ESG topics. Some individuals have CFAs and/or PhDs or MBAs in Finance, Economics or other related fields.

This cohort group represents 79% of the Kingsley Gate Partners ESG talent pool.

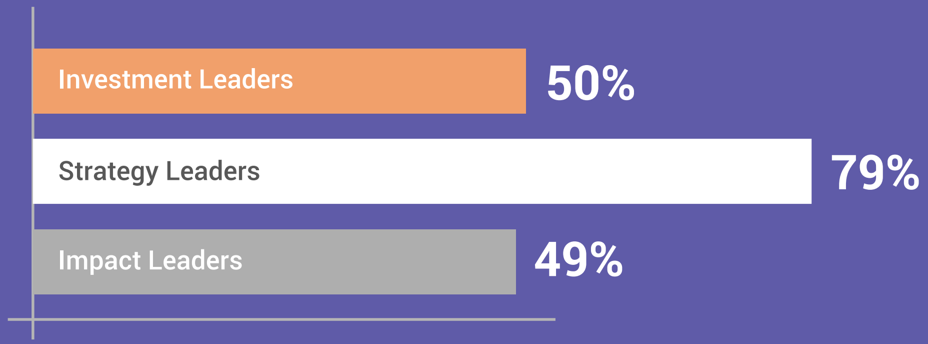
ESG ENGAGEMENT/ IMPACT/ SUSTAINABILITY LEADERS

The goal of these leaders is to manage company dialogues, shareholder proposals, proxy voting and to act as public policy advocates. These individuals engage with company management teams to influence company boards and management through proxy voting, and to act on their right (as representatives of the firm) to engage with management teams and boards on ESG topics to impact change. These roles are not new to asset management firms; however, more recently, many of these individuals have been "recast" from traditional proxy voting, governance and engagement professionals (the "G" in ESG) to experts across all ESG investing on behalf of their firms. These individuals may or may not be integrated into the investment process. In some cases, these roles act in their own silos, automating proxy voting based on strategy that is set elsewhere within the firm. Some of these leaders publish research and appear at high profile speaking engagements. Many of these individuals are acting or former academics, internal shareholder/corporate IR professionals or from policy trade groups or think tanks.

This cohort group represents 49% of the Kingsley Gate Partners ESG talent pool.

Most firms who find themselves in version 1.0 will identify leaders from #1 and #3 (or some combination of both). Very few North American managers have identified talent in #2, which is often at the heart of managers who are shifting gears to achieve version 2.0. A select group of firms have achieved 3.0 and have defined themselves as specialists for years. Only 23% of the Kingsley Gate Partners ESG talent pool has characteristics from all three of these competency areas. This is not surprising since much of the ESG talent in North America is still emerging; however, it does speak to the fact that this particular segment of the KGP talent pool is extremely limited—which will put pressure on firms seeking to hire or upgrade their ESG capabilities to the 2.0 level and beyond.

ESG TALENT AT KINGSLEY GATE PARTNERS



What is becoming more common is that savvy asset owners are using Principles for Responsible Investments ("PRI") guidelines to score the depth, breadth and scope that asset managers are using to truly integrate ESG investment factors into their strategies. This is in addition to external shareholder engagement and proxy voting. RFPs and RFIs are being issued to managers that ask highly detailed questions, such as the identification of each portfolio manager by gender and how they are compensated relative to their peers (in the U.S.). Some asset owners are issuing RFPs and RFIs without asking ESG specific questions--even though ESG principles are essential to their mission--with the idea that those managers who are truly committed will naturally showcase the prominence of ESG factors into their own human capital practices, as well as their investment practices.

There are many other variables that come into play when analyzing a firm's talent structure, and which type of "ESG Professional" may be more important to them. For instance, depending on the size of the asset manager, one may gravitate toward one bucket of "professionals" as opposed to another. Large asset managers are focused more on public profile and engagement, whereas small managers tend to emphasize investments and gravitate toward a bottoms-up structure, particularly in the early stages of a firm's life. Other factors may include asset class, capital structure, track record or ownership (private vs public).

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> ***Head of Responsible Investing***
> ***Nuveen Investments.***

Perhaps even more important in determining success is understanding where accountability for meaningful ESG initiatives resides. Whether it be the perception or reality that ESG professionals are--rather than the investment team taking greater ownership over time of ESG by making appropriate changes to their investment process --lack of accountability could take several years (especially for hires outside the firm to gain traction with the "mainstream" analysts and PMs), but the asset managers need to be open to it and cascade the right balance of top-down direction along with bottoms-up action," says Nuveen's O'Brien

It is crucial in today's ever-changing economic and social environment for asset managers to prepare for sudden shifts, and to have a quick, actionable plan in place to make the necessary changes within the organization. The volatility of economic, social, and governance mandates requires a necessary emphasis on the need to strategically and thoughtfully think about the implementation of ESG talent.

> "Admittedly, this type of integration and adoption could take several years (especially for hires outside the firm to gain traction with the "mainstream" analysts and PMs), but the asset managers need to be open to it and cascade the right balance of top-down direction along with bottoms-up action"
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> ***Amy O'Brien (Nuveen)***

Another thought to bear in mind, according to Aniket Shah, Senior Fellow at Columbia University's Center for Sustainable Investment & Senior Advisor to the UN Sustainable Development Solutions Networks for Sustainable Finance, is agility. He notes, "Change happens very quickly. There is momentum around all these issues now in the air - in policy, in regulation etc. How should asset managers be building up teams for sudden shifts that will come in the next 3-5 years around issues related to climate change, corporate governance, tax havens, gender disparity? What does that mean from a hiring perspective?"

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We have mapped out the ESG talent landscape (the talent buckets mentioned previously) in the North American continent--and, in many cases, with European talent, where ESG investing is far more progressive--with specific, current work that can be leveraged on behalf of other asset managers seeking to establish stronger, ESG leadership talent and/or teams within their firms. We understand the nuances around the kind of leadership that will be successful in versions 1.0 and 2.0, and admire those who have already achieved 3.0. No matter where an asset manager stands in the evolution of ESG talent, Kingsley Gate Partners can advise our clients by devising a talent roadmap to identify the best people based on the goals of their business.

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Over a career that spans over two decades, Paige has placed countless investment professionals spanning CEO's, CIO's, PM's, Senior Analysts (multiple asset classes); Heads of Distribution across institutional, retirement, sub-advisory and intermediary channels, Strategic Relationship Leaders; strategic & digital marketing experts; solutions and product experts throughout North America.

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