

ESG

What is ESG?

ESG stands for Environmental Social and Governance. ESG investing is a form of socially responsible investing that prioritizes a company's impact on the environment, its stakeholders, and the planet alongside its financial returns.

What is an ESG Score based on?

ESG score calculations are based on how an organization is perceived to be performing and how its behavior relating to ESG issues is reported. Perceived being the operative word here as there is often a gap between reality and perception. The purpose of an ESG Score is to allow an organization the ability to manage ESG risks and opportunities; however, to calculate ESG liability, a company first needs to know its ESG score which is an involved process. While an organization may have a strong policy around carbon emissions for example, if that information is not in the public domain, it won't impact its ESG score.

Historical Diocesan ESG approach

For many years, the investment committee has understood ESG to be an important consideration when investing. Over the past couple of years, ESG concerns are growing around the globe. The COVID-19 pandemic along with recent climate change phenomena has further illustrated that we are stewards of nature and not masters of this planet.

From 2017 until 2020, the Diocese has been enrolled in a shareholder engagement program with SHARE, a company attempting to change how capital markets address sustainability. After careful consideration, the investment committee has decided to move away from SHARE, and its basis points associated membership fee. This decision was made in part due to the complicated nature of ESG scoring and the lack of active engagement SHARE has with low ESG scoring companies.

Next steps

In 2021 the investment committee established an investment ESG sub-committee. The group is cognizant that simply divesting without engaging companies, is not an effective long-term solution to socially responsible investing.

A new process has been developed in which prior to each investment committee meeting, the presenting investment managers will be given an ESG questionnaire to complete. We adapted a questionnaire used by the Anglican Church's Pension Plan for their investment managers. The information from the questionnaire will then be input to an ESG scoring machine developed by Refinitiv – Thomson Reuters which helps eliminate subjectivity. Scores can be indexed against universally accepted benchmarks. These results will give the Diocese an idea of which companies are doing well, and those which need to improve. We can then ask our investment managers to contact the low scoring companies and pressure them to better their scores.

Many ESG monitoring companies typically divest rather than engage with the low scoring companies. Consequently, these companies may never change for the better. On the flip side, companies with very good ESG scores may have components of production or operations that are poor but not considered in the overall evaluation. Participating in active engagement with companies to encourage change for the better seems a far more responsible approach to ESG.