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ESG Integration in Investment Management: Myths and Realities

by Sakis Kotsantonis, KKS Advisors, Chris Pinney, High Meadows Institute, and
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Sustainability in business refers to the integration of social and environmental considerations, such as climate change and income inequality, into business strategy and practices. Defined in this way, sustainability is a subject of growing interest to investors and companies alike, who are asking themselves: Is this business approach finance-worthy—that is, capable of earning high enough rates of return to continue to attract capital from private investors? And if so, how can investors (and the companies themselves) evaluate corporate sustainability programs and investments?

To help provide answers to such questions, investors are increasingly turning to a myriad of environmental, social, and governance (ESG) data that have recently become available. This profusion of new data has been facilitated by the dramatic growth in the number of public companies reporting ESG information, from fewer than 20 in the early 1990s to 8,500 by 2014.[1] Moreover, by the beginning of 2016, over 1,400 institutional investors with some $60 trillion in assets under management had signed the UN Principles for Responsible Investment (PRI), a document that—at least in theory—commits its signers to consider corporate ESG performance and data when allocating capital.

Until very recently, however, there has been considerable doubt, especially among mainstream investors, that companies with high ESG "scores" could succeed in producing competitive returns for their shareholders. Studies of the last three decades of the 20th century have reported that what was then known as Socially Responsible Investing (or SRI)—an investment approach that worked mainly by screening out the companies with the lowest ESG scores or entire industries such as tobacco and alcohol—produced shareholder returns that were often below market averages. And this finding has in turn contributed to the widespread perception that corporate efforts to address environmental and social issues end up reducing shareholder value.

But according to the findings of a large and growing body of studies conducted in the past ten years, companies with above-average ESG scores have actually outperformed their competitors, both in terms of standard measures of operating performance and stock market returns. Of course, high ESG scores are not always associated with high returns, and many studies have shown that the superior performance of ESG-conscious companies tends to be concentrated in certain industries with certain kinds of customers and employees. Moreover, such studies always come with a warning to readers against confusing association with a causal relationship between high ESG scores and above-market shareholder returns.

But even so, a large and growing number of studies—some of which we discuss below—have developed and tested research designs that limit the possibility that their findings are driven by correlated (or "omitted") variables, or by "reverse causality." In the pages that follow, we attempt to dispel, along with five other common myths about ESG investing, the widespread misconception that corporate efforts to address environmental and social issues *always* require shareholders to settle for lower long-run profitability and value. At the same time, we consider the major challenges that remain in strengthening ESG integration in mainstream investment management and suggest ways of responding to them.

Myth Number 1: *The net financial effect of corporate efforts to address environmental and social issues is the reduction of corporate returns on operating capital and, along with them, long-run shareholder value; and so, although ESG makes investors feel good, it effectively asks them to accept lower returns on investment.*

Reality: One of the most common misconceptions about corporate efforts to address environmental and social issues is that they constitute mainly a cost to the business—a cost that, while meeting the demands of certain corporate stakeholders, effectively ends up reducing shareholder value. To be sure, addressing social or environmental issues could prove very costly for some companies. For example, companies that attempt to address social inequality by dramatically raising wages for low-skilled workers could quickly find themselves unable to compete, and even go out of business. But the possibility now being explored by a growing number of companies is whether such wage increases can prove to be a cost-effective way of improving employee morale and productivity—and, more generally, whether all kinds of corporate investments in relationships with non-investor stakeholders such as suppliers

1. Serafeim, George, and Jody Grewal. "ESG Metrics: Reshaping Capitalism?" Harvard Business School Technical Note 116-037, March 2016.

and governments as well as employees can succeed in leveraging capabilities and creating win-win situations. Though even while acknowledging the possibility of such positive-NPV investments in their stakeholders, corporate managers must also know when to stop investing in such efforts, in order to be able to produce economically attractive returns.

With the aim of providing answers to such questions, a significant amount of research has been carried out in recent years to better understand the economic effects of integrating ESG issues into corporate financial decision-making, both from a company and an investor perspective. The general thrust of this research is that, at least for some kinds of companies in some industries, such stakeholder investment can prove to be a source of competitive advantage and value that is increasingly being recognized by investors.

In one notable example of such research, a recent report by Calvert Investments (written with one of the authors of this article) provides a framework to help companies and their investors understand the ways in which corporate social and environmental activities can and have led to value creation.[2] For example, companies often cite the cost savings achieved by reducing waste and improving energy efficiency as benefits of environmental initiatives. And to the extent that investors view a company's efficient use of natural capital resources as a reliable proxy for management's efficiency in using other resources, particularly investor capital, such savings can translate into a significant increase in corporate values. Another frequently mentioned benefit of sustainable business practices is more effective risk management, which in turn can help protect a company's reputation and brand value. When investors are impressed by such practices, they are likely to require lower returns on capital (which has the effect of reducing the company's "cost of capital") and assign higher P/E multiples to the firm's current earnings or cash flow. Through their effects on corporate reputation and brand values, sustainability practices can also increase companies' long-run values by helping them attract a more talented and engaged workforce, as well as more satisfied and loyal customers. Finally, another goal of some corporate sustainability programs are increases in revenue from satisfying new customer needs and serving previously underserved parts of the population. And as the Calvert report notes, recent academic studies have provided supporting evidence for each of these different ways that sustainability initiatives can increase corporate cash flow or shareholder value.

Along with this evidence of the effects of sustainability on corporate *operating* performance, the report also presents new research findings that attest to the market's recognition of the value of such programs. More specifically, the valuations of companies with above-average ESG performance are shown to reflect higher expected growth and a lower cost of capital. [3] In addition, such companies tend to trade at higher valuation multiples in equity markets and to have lower credit default swap spreads.

But if the research and evidence suggest significant benefits from ESG integration, why does the myth of sustainability as a cost or low-return investment persist? Part of the answer has to do with the fact that many mainstream investors and SRI funds still continue to employ exclusionary screens as their ESG integration tool. This set of investment practices is unable to capture the value added by sustainability initiatives in certain companies, and as a result these funds have not yet produced the returns one would expect. But even more important in explaining the popular perception of sustainability as a negative-NPV project is the clear reality that, as demonstrated by recent research, only a relatively small subset of the ESG data is what might be described as "material" and hence "value-relevant" for each industry. And this subset differs from industry to industry.

This reality is the main premise underlying the efforts of the Sustainability Accounting Standards Board to identify "material" ESG issues for nearly 80 different industries and propose reporting standards for each.[4] For example, according to the SASB, managing environmental impact is a very important element of business strategy for companies in the fossil fuel and transportation industries. But managing environmental impact is relatively unimportant (or "immaterial") for financial institutions and healthcare companies, where other ESG concerns, such as fair marketing and advertising of products, tend to be very important.

In a study published in the past year, the authors (including one of the present writers) began by accepting, for each industry,[5] the SASB's distinction between "material" and, by implication, "immaterial" ESG issues. Then, for a sample of more than 2,000 U.S. companies between 1993 and 2013, the authors assessed the levels of corporate performance with regard to each of their corresponding material and immaterial ESG issues. And by quantifying corporate efforts to manage both their material and immaterial exposures, the authors were able to construct two sets of rankings: one index that ranked companies based on their investments in addressing material issues and a second that ranked companies based on their investments in issues deemed to be immaterial.

What the authors found was that companies making major investments in material ESG issues experienced both higher growth in profit margins and higher risk-adjusted

2. Calvert Investments, 2016, "The Role of the Corporation in Society: Implications for Investors," http://www.calvert.com/perspective/research/calvert-serafeim-series-report

3. Calvert Investments. 2016. The Role of the Corporation in Society: Implications for Investors. http://www.calvert.com/perspective/research/calvert-serafeim-series-report.

4. For a discussion in this issue of the goals and standards of the SASB by its CEO and a prominent board member, see Bob Herz and Jean Rogers, "Measuring What Matters: Industry Specificity Helps Companies and Investors Gain Traction on Sustainability Materiality," *Journal of Applied Corporate Finance*," Vol. 28 Number 2 (Spring 2016).

5. Khan, Mozaffar, George Serafeim, and Aaron Yoon. "Corporate Sustainability: First Evidence on Materiality." Accounting Review (forthcoming).

stock returns than otherwise comparable companies. At the same time, and in pointed contrast, those companies that made significant investments in ESG issues the SASB deemed to be immaterial were associated with average or, in some cases, even inferior performance.

The message here, then, is the importance of distinguishing corporate initiatives and investments designed to manage material, business-related ESG exposures—those with large potential effects on the long-run value of the firm—from efforts to deal with relatively unimportant, though perhaps socially popular, ESG issues. The research we have suggests that there is a significant payoff to the first, in terms of increases in profits as well as stock returns, while the expected returns for investing in concerns that are largely peripheral to the business are neutral to negative.

Myth Number 2: *ESG is well on its way to being integrated into mainstream investment management and capital markets with over $60 trillion in assets now subscribed to the Principles for Responsible Investment established by the UN (UNPRI).*

Reality: While the growing number of signatories to the UNPRI is an encouraging step forward, it is a misleading indicator of the actual level of ESG integration in capital markets. The reality is that PRI signatories commit only to behaving in accordance with a set of principles for responsible investment, a commitment that falls well short of integrating ESG considerations into all their investment decisions.

A more accurate picture of what is happening with ESG integration can be found in the annual report provided by the Global Sustainable Investment Alliance. According to the GSIA report, the estimated size of the global sustainable investment market at the start of 2014 was around $21.4 trillion, and thus only about a third of the $60 trillion managed by UNPRI signatories.[6] The difference between the Assets Under Management (AUM) of UNPRI signatories and the actual sustainable investment market can be accounted for by the facts that (1) not all signatories either comply fully with the principles or are at the same stage of development of their ESG integration process, and (2) signatories are not obliged to apply ESG integration practices to their total AUM.

When we drill down further, we discover that of all the different sustainable investing strategies, by far the most common globally is the practice of "negative screening." Negative screening involves eliminating from the investment universe companies or countries that do not comply with certain standards or international treaties, such as the Fundamental Conventions of the International Labor Organization (ILO). Sector-based screening consists of eliminating from the investment universe sectors such as tobacco, alcohol, and weapons that are viewed by many as having destructive social consequences. But such a practice, which accounts for an estimated $14.4 trillion of AUM, represents a relatively minimal level of integration of ESG factors into investment decision-making.

The second most common sustainable investing strategy involves a combination of ESG integration—which is estimated to account for some $12.9 trillion of AUM—and corporate engagement, or shareholder action, with an estimated $7 trillion devoted to it. But the lion's share of such investing today is taking place in Europe rather than the U.S. According to the U.S. Forum for Sustainable and Responsible Investment, the total assets in the U.S. that are managed with ESG factors explicitly incorporated into investment analysis and decision-making are valued at $6.2 trillion, which represents only 16% of total AUM in the U.S.[7] Most of those AUM are still managed using negative screening.

To better understand the challenges involved in deepening ESG integration, a 2015 report by the High Meadows Institute examined the ESG incorporation practices of the largest (in terms of AUM)[7] 25 global asset owners and asset managers against the practices of major global companies. The research showed that there is a wide range of ESG metrics used, and most of those surveyed do not appear to have the necessary governance and incentive systems to ensure meaningful integration of ESG factors in investment strategy and valuation models across asset classes.

Thus, while there is growing interest in ESG by investors and expanding niche markets for "sustainable" investment products, we are still a long way from seeing ESG integrated into the models that drive most mainstream investment decision-making.

Myth Number 3: *Companies have little if any ability to influence the kinds of investors who buy their company's shares. And because the main focus of the vast majority of investors is near-term reported earnings, with holding periods—and presumed time horizons—ranging from three months to a year, corporate managers are often forced by market pressures to sacrifice sustainability goals to meet quarterly earnings targets.*

Reality: Capital markets are made up of an extraordinary variety of investors; and although most have a clear preference for companies that aim to maximize value—at least over the longer run—such investors exhibit a wide range of holding periods and time horizons. What's more, as has been demonstrated by a growing body of research, different management practices tend to attract different types of investors, which in turn suggests that corporate managers have some ability to shape their investor base

6. Global Sustainable Investment Alliance. 2014. http://www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA_Review_download.pdf.

7. Global Sustainable Investment Alliance. 2014. http://www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA_Review_download.pdf.

in ways that are consistent with the strategy of the organization.

Much of this research uses a method of classifying U.S. institutional investors into one of three categories that was developed by Wharton accounting Professor Brian Bushee. The three categories are as follows: (1) "transients"—those investors who hold lots of stocks with high turnover and short holding periods; (2) "quasi-indexers"—those holding lots of stocks with little turnover and long holding periods; and (3) "dedicated holders"—those holding relatively few stocks for long periods of time.[9] In a study published a year ago in this journal, one of us examined the effect of U.S. companies' use of integrated reporting on their shareholder base.[10] The findings of the study showed not only that companies that adopt more integrated reporting see increases in their ratios of dedicated holders to transients, but also that investor activism on sustainability issues and the presence of a sustainability crisis have led companies to practice more integrated reporting, thereby helping them attract more long-term investors.

To see these findings in action, consider the case of the biotech firm called Shire. Shire managed to change its investor base over time by using top leadership commitment to make sustainability issues a major strategic focus of the organization, and to use integrated reporting as a way to communicate these efforts. The change in Shire's shareholder base was detected by comparing the change in the ratio of the company's dedicated holders to its transient investors during the five-year period from 2006 through 2011. In 2006, Shire's dedicated holders were outnumbered almost four to one by transients. By the end of 2011, and some four years after Shire had begun to implement its sustainability-centered strategy, the company's dedicated holders actually outnumbered its transients, which is highly unusual for a public company.[11] By 2011, investment managers such as Domini Social Investments, Norges Bank Investment Management, Scottish Widows, and Aviva Investors—all well known for incorporating ESG considerations into their decision-making—were all holding significant positions in Shire's stock, which most of them hold to this day. In sharp contrast, the institutional shareholders of Shire's competitors, while less dominated by short-term momentum types than Shire's investors in 2006, actually became more short-term oriented over this same five-year period.

In sum, the success of companies that practice integrated reporting in attracting longer-term shareholders suggests that there is a clear potential to change a company's shareholder base in ways that end up contributing to increases in long-run profitability and value. By giving management the confidence to resist excessive pressure for short-term performance, the presence of supportive long-term holders can encourage top management both to make commitments to long-run sustainability goals, and, even if it means missing a quarterly earnings target, to make good on those commitments. One example of such encouragement from markets came on the day (April 13, 2015) Dow Chemical CEO Andrew Liveris announced the company's commitment to the "third generation" of its 10-year sustainability goals, a day when Dow's stock price outperformed its competitors' by some 3.5%, an unambiguous sign of some investors' enthusiasm about the firm's long-run prospects.

Myth Number 4: *It is nearly impossible to do good fundamental analysis taking into account ESG data because the data infrastructure is really lacking.*

Reality: Although the argument that ESG data is still not at the same level as financial data holds true, there has been tremendous progress during the last few years in increasing the availability and quality of data.

Companies are increasingly reporting ESG data. While there were fewer than 20 companies producing reports with ESG information in the early 1990s, there has been an exponential increase to nearly 8,400 companies in 2014. Investor interest in ESG data has also been growing at a fast pace. Between November 2010 and April 2011, capital market participants have tried to access ESG metrics 44 million times using their Bloomberg terminals.[12]

Other capital market players have also played important roles in the move toward better ESG reporting. The sustainable stock exchanges initiative was created to facilitate the dialogue among stock exchanges, investors, regulators, and companies and, in so doing, to increase corporate transparency. Stock exchanges are in a unique position to help improve ESG data availability and quality by including listing requirements related to ESG reporting and providing appropriate guidance and training. As of 2016, 15 stock exchanges had produced ESG reporting guidance for listed companies, and 23 had committed to producing guidance—while 41 had yet to do either.[13]

Several organizations have been instrumental in increasing the availability of ESG data. For example, the Global

8. High Meadows Institute, 2015. *Sustainability in Capital Markets: A survey of current progress and practices*

9. See Brian J. Bushee and Christopher F. Noe, "Corporate Disclosure Practices, Institutional Investors, and Stock Return Volatility," *Journal of Accounting Research* (2000): 171-202, and Bushee's personal website for institutional investor classification data, http://acct.wharton.upenn.edu/faculty/bushee/IIclass.html.

10. George Serafeim, "Integrated Reporting and Investor Clientele," *Journal of Applied Corporate Finance* 27, no. 2 (Spring 2015): 34–51. Integrated reporting is a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long-term.

11. Andrew Knauer and George Serafeim, "Attracting Long-Term Investors Through Integrated Thinking and Reporting: A Clinical Study of a Biopharmaceutical Company," *Journal of Applied Corporate Finance* 26, no. 2 (Spring 2014): 57–64.

12. Robert G. Eccles, George Serafeim, and Michael P. Krzus, "Market Interest in Nonfinancial Information," *Journal of Applied Corporate Finance*, Vol. 23, Issue 4 (Fall 2011), pp. 113-127.

13. See http://www.sseinitiative.org/engagement/esg-guidance/.

Reporting Initiative (GRI), which was the first organization to provide guidance on disclosure of ESG metrics, has now seen over 7,000 organizations voluntarily adopt those guidelines. As mentioned earlier, the Sustainability Accounting Board has been developing and disseminating industry-specific sustainability accounting standards that are designed to help publicly listed corporations disclose material factors in compliance with Securities and Exchange Commission (SEC) requirements. Although SASB has a particular focus on the U.S. market, the topics for which the SASB sets standards are industry-specific, not region-specific, and therefore apply to most companies and investors in global markets. And the Carbon Disclosure Project (CDP) has encouraged, and achieved considerable success in persuading, companies and cities across the world's largest economies to measure and disclose environmental information.

At the same time, the number of mainstream and specialized data providers that have seized the opportunity provided by a growing ESG market and ESG corporate reporting has also increased rapidly. One survey has reported finding that more than 80 ESG rankings and ratings have been developed in the last decade alone.[14] Bloomberg collects ESG data from published company material and integrates the data into the Equities and Bloomberg Intelligence platforms. Currently Bloomberg covers more than 11,300 companies with ESG data in 69 countries. The number of customers using ESG data on Bloomberg terminals has increased from 1,545 in 2009 to over 12,000 in 2015.[15] Thomson Reuters, through its ESG research platform, provides a database containing information on over 5,000 global companies and over 400 metrics.

Many major data providers are also involved in disseminating ESG information. For example, in 2015 MSCI provided coverage on 6,000 companies on the equities side and 9,000 issuers and 350,000 securities on the fixed income side. Their dataset includes 1,000 data points on ESG policies, programs, and performance, 65,000 individual director profiles and 13 years of shareholder meeting results.

Regulators have also been exerting pressure for better ESG disclosure. In one of the most recent major developments, the European Union in 2014 adopted a directive on non-financial reporting. The directive requires large public-interest entities with more than 500 employees to disclose in their management report information about company policies, risks, and outcomes regarding environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues, and diversity in their board of directors.

While there has been a considerable increase in the volume of ESG data, the challenge for investors remains to identify those ESG factors that are material to financial performance and a framework for corporate reporting and communication with investors around these factors. As reported in the 2015 HMI study cited earlier, asset owners, asset managers and companies all tend to use different framework and metrics, which further complicates the task of ESG integration. Initiatives like SASB are important steps forward in identifying which ESG factors are material by industry. We are also seeing industry-driven initiatives, such as Project Delphi and HMI's ESG Path to Value Industry Forum, that are designed to create practical approaches to help mainstream investment analysts and portfolio managers across asset classes identify material ESG factors and translate them into data that can be used in their valuation models and investment strategies.

In sum, both the availability and quality of data are increasing at a fast pace. And although ESG data are still not as rigorous as financial data, one needs to remember the time and effort it took for financial data to reach its current level. The profession of accounting was recognized in 1896, when the title of "certified public accountant" was first used, and it took several decades for financial data to reach the current level of rigor.

Myth Number 5: *ESG is only about managing risk and reducing costs.*

Reality: Many consider ESG integration as a tool to protect reputation, manage risk, and maybe decrease costs by introducing efficiencies. The truth is that if companies approach ESG integration only from a risk management perspective, they may well find themselves underperforming their peers.

As discussed in an article called "The Performance Frontier," in the absence of major innovation, the financial performance of companies may well decline even as their ESG performance improves.[16] ESG integration can be a way to achieve growth in revenue while both managing risk and improving operational efficiency. Take the case of Dow Chemical, which has shifted from a risk management stance on sustainability to leveraging technology and innovation to provide new products and solutions. Dow's management identified opportunity areas that relate to the company's key capabilities that have resulted in potential markets whose worth is estimated at some $320 billion. Several of the company's recent innovations were the output of sustainability-driven strategic planning. For example, Dow's membrane technologies are now positioned to reduce the cost of water

14. SustainAbility 2010. Rate the Raters Phase Two. Tanking Inventory of the Ratings Universe. http://www.sustainability.com/library/rate-the-raters-phase-two.

15. See https://www.bloomberg.com/bcause/customers-using-esg-data.

16. Robert G. Eccles and George Serafeim, "The Performance Frontier," *Harvard Business Review*, 2013.

Table 1

Myth	Reality
1. The net financial effect of corporate efforts to address environmental and social issues is to reduce corporate returns on operating capital and, along with them, long-run shareholder value	• Only a relatively small subset of ESG issues is what might be described as "material" and hence "value-relevant" for each industry • Initiatives and investments designed to manage material ESG issues will produce results, in terms of increases in profits as well as stock returns
2. ESG is well on its way to being integrated into mainstream investment management and capital markets with over $60 trillion in assets now subscribed to the Principles for Responsible Investment established by the UN (UNPRI)	• Only a small percentage of those assets are taking into account ESG data in a systematic way. • The overwhelming percentage is just using ESG screens
3. Companies have little if any ability to influence the kinds of investors who buy their company's shares	• Companies can and have influenced their investor base. A real example is the case of Shire, which managed to significantly change their share-holder base within 5 years by using sustainability strategy and inte-grated reporting to resist excessive pressure for short-term performance
4. It is nearly impossible to do good fundamental analysis taking into account ESG data because the data infrastructure is really lacking	• Progress on data availability and quality has been made over the last few years. Companies, investors, stock exchanges, data providers and NGOs have all played a key role in advancing ESG data infrastructure
5. ESG is only about managing risk	• There are numerous examples of companies that have used ESG integration as an enabler to achieve long term value and grow their top line: Dow Chemical, General Electric, Unilever
6. Consideration of ESG factors in investment portfolio construction is contrary to fiduciary duty	• Policy makers and multi-stakeholder initiatives are now working to pro-mote reforms in the legal interpretation of fiduciary duty. Changes are already happening (Department of Labor, October 2015 new statement to acknowledge the relevance of ESG issues on economic value)

desalination and reuse in the transportation and infrastructure industries by as much as 35%.

Another example of how sustainability has created market opportunities is GE's Ecomagination initiative. During the last decade, GE's R&D investment of some $17 billion has generated some $232 billion of revenue, while resulting in a 12% reduction in the company's own GHG emissions and a 17% reduction in its use of freshwater. In yet another case, Unilever implemented an analytics platform that enables line-of-business managers to track all the complex elements related to supply chain efficiency and environmental impact and to take corrective actions. By aggregating the data and making it easier to analyze, Unilever has reduced the time devoted to tracking raw materials by 80%.

Myth Number 6: *Consideration of ESG factors in investment portfolio construction is contrary to fiduciary duty.*

Reality: A common concern expressed by investment managers, particularly in the U.S., is the possibility that integrating ESG factors into their valuation models could be seen as a failure to uphold their fiduciary duty and the "prudent investor" rule. Their reasoning is that fiduciaries, under their duty of loyalty to protect the financial interest of their beneficiaries, must consider only traditional economic factors in their valuation models and therefore must exclude ESG factors commonly viewed as "non-economic." Another, related concern is that consideration of these factors could have the effect of limiting the pool of investments that must be used to "diversify risk," as specified by the prudent investor rule. Giving particular weight to this view in the U.S., a 2008 Employee Retirement Income Security Act (ERISA) bulletin by the U.S. department of labor stated that fiduciaries should not make investment decisions that take into account "any factor outside the economic interest of the plan."

Over the last 15 years, however, research has shown that many ESG factors like environmental practices can have a direct or indirect material impact on the financial performance of companies and should be considered by investment managers. These factors can no longer be dismissed as simply social or ethical issues. The challenge for investment managers is to identify and take account of the relevant ESG factors for the industries and companies they are investing in. While this may be complicated by the lack of industry standards to guide ESG reporting and the increasingly "noisy" ESG reporting environment, this is a task they must now take on if they are truly to act in the fiduciary interest of the beneficiaries they serve.

The importance of developing such standards has also been increasingly recognized by policymakers and multi-stakeholder initiatives, which are now working to promote

reforms in the legal interpretation of fiduciary duty. In October 2015, the Department of Labor issued a new interpretation, noting that its 2008 bulletin had "unduly discouraged fiduciaries from considering ETIs and ESG factors." In this more recent statement, the Department of Labor also acknowledged that ESG issues might have a direct bearing on the economic value of a plan's investments, and that such issues are accordingly not only a legitimate, but—at least in some cases—even a necessary focus of the fiduciary's primary analysis of the economic merits of competing investment choices.

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