RepRisk

RepRisk AG
Zurich | Headquarters
Stampfenbachstrasse 42
8006 Zurich, Switzerland

Phone | Fax
+ 41 43 300 54 40
+ 41 43 300 54 46

Email | Web
contact@reprisk.com
www.reprisk.com

ESG Viewpoint: First State Investments

RepRisk interviews Will Oulton, Global Head of Responsible Investment at First State Investments

First State Investments is a global asset management business with experience across a range of asset classes and specialist investment sectors. The company manages investments on behalf of institutional investors and pension funds, wholesale distributors and platforms, financial advisers and their clients. First State is owned by the Commonwealth Bank of Australia and in Australia, the firm operates as Colonial First State Global Asset Management.

Will Oulton, who has over fifteen years of experience in the responsible investment field, joined First State as Global Head of Responsible Investment in 2012, with the aim of developing and embedding First State's responsible investment strategy and practices across the business with the objective of the business gaining recognition as global leader in the field.

Before working for First State, Will was Head of Responsible Investment for EMEA at Mercer Investments, leading the firm's business and client relationships across Europe, the Middle East, and Africa. Prior to this, Will was Director of Responsible Investment at the FTSE Group, and played a key role in the launch of FTSE4Good Index.

Will is the President of the European Sustainable Investment Forum (Eurosif) and a Board Member of the UK Sustainable Investment Forum (UKSIF). Furthermore, he is an Honorary Associate Professor at the Nottingham University Business School's International Centre for Corporate Social Responsibility, as well as a fellow of the Royal Society of Arts. He presents on the topic of sustainable investment around the world, and firmly believes that the integration of ESG factors is a crucial element in investment processes.

RepRisk: You are the Global Head of Responsible Investment, but we understand that you do not particularly like the term "responsible investment". What term do you prefer using and why?

Will Oulton: I start from the viewpoint that all investment activity should be responsible and accountable to its clients and that this goes beyond a narrow definition of "responsible" investment being primarily about ESG integration. To me, it should also include ensuring clients fully understand the products they are buying, their costs, how they are managed and how they are likely to perform in certain market conditions for example. However, an understanding of how of ESG factors can comprise sources of long-term risk and performance is central to delivering a high quality investment process therefore I believe that we should be thinking more broadly and defining this as "sensible investment". I hope it catches on!

RepRisk

RR: The concept of "stewardship" is an important element in First State's strategy. Can you tell us more about how the firm defines stewardship and how it implements this concept in its approach to investment management?

WO: Stewardship is the primary purpose of an investment manager. Not only do we have the honor of managing other people's capital, we have the opportunity to allocate that capital to productive purposes in the investment decisions we make.

All of our work is focused on protecting and enhancing the wealth of our clients over the long term, therefore their interests are central to the whole purpose of our business; to us, that is stewardship. In practice it means actively monitoring and engaging with company management, executing our client's ownership obligations diligently and where we can have an influence, maintaining the quality of the markets where we invest our client's money.

RR: First State aims to be a global leader in responsible investment - what are some of the steps you have taken to achieve that goal? And, in your view, what is holding back other global asset managers from taking a bold step when it comes to ESG?

WO: We believe, throughout our organization, that striving for market leading responsible investment practice brings benefits first and foremost to our clients but also to the long-term prospects for our business. The subjects gets a lot of attention at senior management level.

Our approach is based on three strategic pillars. These are enhancing the quality of our investment process, our role as stewards and long term investors, and engagement with our colleagues across the business on RI. For any asset manager, their approach to responsible investment has to fit with their culture and investment philosophy. A lot of RI work involves a process of change management and winning the hearts and minds of investment professionals to encourage them to think in a way that they may not necessarily have been trained nor incentivised to do. That means there is no one size fits all and each institution can and should develop their own approach.

RR: First State has been using RepRisk's data since 2010. How are you using RepRisk and what do you think are the main benefits?

WO: RepRisk has become a widely used tool across our investment business and our usage has significantly increased since we began using the data in 2010.

We know that there is no such thing as a perfect company and that from time to time companies can face problems. What we can't accept is where the management of companies are not on top of such issues and where they appear to be systemic and cultural in their nature. Where this is the case our client's money is at risk and that is clearly a major concern.

RepRisk data therefore has 2 main uses within our business, one is for monitoring and tracking issues, the second is for challenging management and getting a feel for them by how they respond to questions on issues raised during engagement. The trick is of course not to warn them in advance so you get a "real" reaction and not a pre-prepared PR message!

RepRisk

RR: There has been an increasing awareness of ESG issues over the last decade, not just in investment management but throughout civil society, governments, and the business world. What, in your view, was one of the "defining moments" of this evolution? And what do you see as one of the next big steps, or trends, on the horizon?

WO: I don't think there has been a big defining moment, there has been a fairly consistent set of "nudges", usually driven by the most recent market crisis! Some of these nudges include the UK's Kay Review, whichever corporate governance failure you would like to choose, BP's Gulf of Mexico blow up, the various carbon and climate related work and so on. One big change in the last decade however has been the influence of the use of social media by campaign groups which has definitely had an impact.

On the horizon, I can see much more scrutiny of exactly what companies are held in investment portfolios particularly form the millennial generation' around their DC scheme options. The industry has yet to develop tools to enable proper comparisons between products beyond the standard past performance and views on risk. In my more utopian moments I have a dream that one day every investment product will have a statement of its social purpose and a measure of its contribution to the environmental stewardship.