

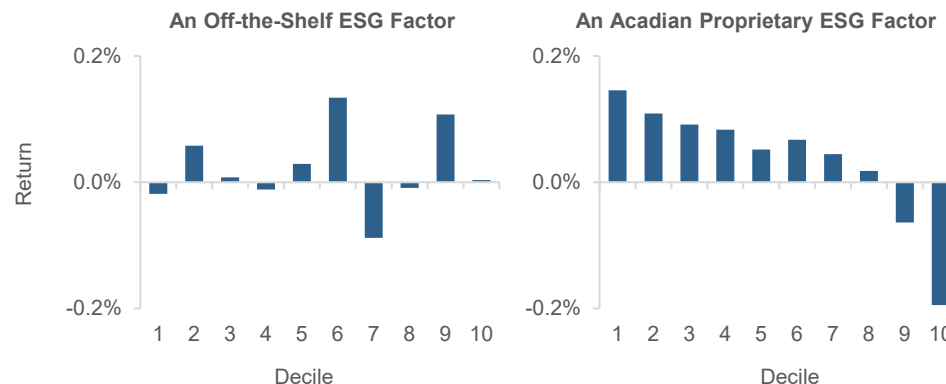
Quick Take: ESG – Beyond ‘Green-Wishing’

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Most ESG approaches reflect shaky intuition and rudimentary implementations.

- We believe that certain ESG considerations influence corporate success and investment performance.
- But ESG also has become the flavor of the day, and amid relentless hype and pressure to participate, many approaches have been brought to market that are based on imprecise foundations and rudimentary implementations.
- The figure at right highlights the importance of careful specification of ESG variables. In this example, an “off-the-shelf” ESG signal from a widely-used data provider lacks focus and shows poor forecast efficacy. In contrast, an Acadian signal exhibits meaningful predictive ability; our factors are based on scrubbed data, thoughtful formulation, and more targeted E, S and G themes.
- Data from third-party providers often present analysis challenges, including limited breadth and history, size and style biases, and subjectivity in overall assessment. As evidence, we find low correlations (40-50%) in ESG ratings between data providers.

Generic ESG Signals Lack Focus and Efficacy



Charts represent hypothetical root-capitalization-weighted average 1-month ahead excess returns for developed market stocks equally sorted into deciles by an “off-the-shelf” ESG-related factor supplied by a third-party vendor and an Acadian proprietary ESG-related factor. Data from February 2007 to February 2019. Source: Acadian Asset Management LLC. The information provided is for illustrative purposes only based on proprietary models. It does not represent investment returns from actual trading or actual portfolios. There can be no assurance that the forecasts will be achieved.

ACADIAN ASSET MANAGEMENT LLC



How does Acadian approach serious challenges in ESG signal development?

- We create proprietary ESG factors that align with a fundamental investment theme and show robust efficacy. We apply the same level of rigor to R&D of ESG factors as with other signals in our alpha model.
- We have developed proprietary methodologies to supplement the limited data coverage of signals offered by many data vendors.
- Our approach can lead to significant weighting on ESG factors in our return forecasts. We integrate ESG signals throughout our core process. Beyond integration, Acadian partners with our clients to develop bespoke Sustainability solutions.
- We believe that what gets measured gets managed. To this end, Acadian provides ESG reporting on both ESG portfolio characteristics as well as our ongoing stewardship efforts.



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