
ESG Integration in ETFs

Webinar: Opportunities from goodwill on the balance sheet

Investing with environmental, social and governance (ESG) principles is a crucial consideration for investors looking to align their values and ESG priorities with their investment choices. In this webinar, **Zehrid Osmani, Head of Global Long-Term Unconstrained (GLTU) at Martin Currie**, discussed the value of integrating detailed, structured and consistent ESG analysis in the investment process. This webinar was held in association with the **Canadian ETF Association**. Here are key takeaways.

Investment process: 3 steps

The Martin Currie ESG investment process has three key steps that build conviction at each stage:

1. **Idea generation**: identify the best sustainable quality growth businesses that are attractively valued.
2. **In-depth fundamental research**: use a systematic approach backed by proprietary research to identify upside potential in prospective investments, analyze their risk profiles and valuations, and enable confident decision making.
3. **Portfolio construction**: create a diversified, concentrated and high-conviction portfolio without any unintended risk exposures.

The risk assessment in step 2 examines industry, company, governance/sustainability, and portfolio risks. The analysts look at every relevant risk and the process allows for aggregating all fundamental risks at the portfolio level to assess factors such as pricing power, disruption risk or innovation potential for the portfolio. For example, the industry risk category included 'supply chain dependency' before the COVID-19 pandemic, which made the Martin Currie process "crisis ready" for today's supply chain disruptions.

Portfolio analytics with ESG

Martin Currie integrates **proprietary ESG analysis** throughout the investment process, looking at 52 parameters and a further 22 dedicated to social exploitation. Environmental considerations in the assessment include a company's carbon intensity, pollution risk and resource risk. Social factors include exploitation risk (i.e., by age, gender, ethnicity), social improvements and political lobbying. For governance, the analysis examines factors including board assessment, remuneration and culture, which includes diversity and integrity/ethics.

Also, each holding is mapped for its exposures to the **U.N.'s 17 Sustainable Development Goals** and whether it contributes positively or negatively to each goal. Only 2% of the GLTU strategy has a negative contribution.

The typical company that makes it into a GLTU portfolio has features such as high barriers to entry, a dominant market position, strong structural growth prospects, quality management and sustainable business models—at an attractive valuation. A GLTU portfolio looks to invest in companies that are exposed to the three mega-trends of long-term structural growth: Future of Technology, Demographic Changes, and Resource Scarcity. Each mega-trend encompasses sustainable themes.

Active engagement with corporations

Because most investors don't have time to **engage actively with companies** they invest in, Martin Currie makes engagement on their behalf a priority to better understand the investments. For instance, engagement helps Martin Currie learn how companies are adapting to the pandemic. In 2020, the GLTU team had almost 500 meetings with invested companies around the world. This represents at least two meetings per quarter per company, in addition to earnings calls.

ESG integration and alpha

Martin Currie's GLTU strategy includes about 30 holdings, with balanced exposure to the information technology, health care, consumer and industrials sectors. This concentrated portfolio has typically low turnover and is reviewed at least once a month. The team frequently stress tests its conviction on each stock. "In a high conviction portfolio there is no room for low conviction," said Zehrid Osmani.

He also emphasized that the **GLTU strategy's alpha**—230 basis points annualized since inception—does not come from any FAANG stocks. The portfolio is also underweight the U.S. equity market, by about 20%, yet has produced strong alpha. The GLTU strategy generates alpha from different sources than its peers.

Franklin Templeton and Martin Currie

Martin Currie is a specialist investment manager of Franklin Templeton, which brings together some 1,300 investment professionals managing over USD\$1.5 trillion in client assets as of Sept. 30, 2021.

Martin Currie was awarded the highest possible (A+) rating by the UN-supported Principles for Responsible Investment (PRI) across all three categories from 2017-2020 and it is in the top 9% of asset managers for active ownership.

[FGSG - Franklin Martin Currie Sustainable Global Equity Active ETF](#)

This ETF seeks to provide long-term capital appreciation through exposure to global equity securities by investing primarily in units of **Franklin Martin Currie Sustainable Global Equity Fund** (successor fund) and/or equity securities of sustainable issuers anywhere in the world.

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