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Insight

How to reconcile Value and ESG?

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ESG (Environmental, Social, and Governance) funds are no longer niche products but are at the heart of the future of asset management. The market has seen an irreversible shift towards sustainable finance in recent years, driven in part by the strong outperformance of sustainable strategies compared to their conventional peers, but also by increased consumer pressure on transitioning to a sustainable world.

With the popularity of sustainable investing, many misperceptions arise. Investors assume that SRI strategies are quality or growth biased as they tend to have low exposure to ESG controversial sectors such as energy, materials or financials. For the need of our clients, ABN AMRO Investment Solutions (AAIS) looks beyond beliefs to cover all styles with SRI strategies and navigate through different market environments. AAIS is the asset management company of ABN AMRO Bank and a pioneer in sub-advisory with a proven 20-year track record in selecting third-party strategies. Selection is done by a dedicated Manager Research team composed of 10 analysts and specialized by asset class.

ABN AMRO Boston Common US Sustainable Equities and ABN AMRO EdenTree European Sustainable Equities are unique proposition being ESG and value oriented. They are looking for companies with strong responsible and sustainable characteristics. They both seek sustainable names that are undervalued with catalysts for rerating from fundamental, structural, or ESG sources. Companies with intrinsic values not fully appreciated by the market due to their potential turnarounds in their business models, companies operating in ESG improving industries are targeted. This is in stark contrast to the vast majority of ESG funds where investors seek out companies with transformational products and high growth expectations, but which can often trade above their intrinsic value.

When selecting sustainable strategies, AAIS Manager Research analysts tend to favor "pure players" who have demonstrated a clear commitment to SRI over several years. AAIS analysts look for asset managers who have responsible investing in their DNA and lead the market in sustainable practices moving the SRI debate forward. These are asset managers who actively participate in SRI initiatives (e.g., Carbon Disclosure Project, etc.). EdenTree and Boston Common are recognized leaders in the Responsible Investment field and embody the ABN AMRO investment Solutions Manager's process. Both boutiques have been strongly committed to SRI since over 25 years.

AAIS analysts favor managers with proprietary ESG research that are driven by strong ESG convictions rather than following market consensus and adopting backward-looking external data provider's view. Boston Common and EdenTree investment processes have sustainability embedded in the core of their processes and are exposed to major sustainable themes. Boston Common is exposed to climate change & earth renewable, inclusion & empowerment and finally health &

community wellbeing. EdenTree has a strong bias towards investing in companies operating within areas such as sustainable solutions, health & wellbeing, education and social infrastructure.

Boston Common is looking for opportunities in several ESG areas of market misvaluation. They mainly invest in solution leaders (i.e., companies addressing environmental and social challenges) and ESG Momentum companies (i.e., companies improving their products, processes, or policies, through internally driven efforts, or a repositioning of strategy). EdenTree is not necessarily looking for “ESG star companies” trying to exploit transformational new technologies, which have attained huge popularity and high valuations to match, but rather in lesser-known companies who play a crucial role in moving the global economy to a more sustainable future, through incremental innovation and enabling technologies.

Active ownership is also a cornerstone of the analysis of SRI strategies as it aims to improve the sustainability practices. AAIS Manager Research team believes external managers able to be strong in engagement are the ones that make the difference in the sustainable universe. The team thus expects from delegated managers, highest standards in terms of active ownership. Engagement is only considered successful when its trajectory is result oriented. Targets, successes and failures track record are part of the AAIS Manager Research analysis. Both Boston Common and EdenTree have been leaders in the active stewardship space using proactive, reactive and topical engagements as part of their sustainable strategies allowing them to unlock the value of invested companies through engagement.

If you are looking for funds that reconcile Value and ESG, download [EdenTree European Sustainable Equities](#) or [Boston Common US Sustainable Equities](#) documentations by clicking on the links.

ABN AMRO Investment Solutions - AAIS

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