

ESG decision analytics for asset owners



“We use large-scale technology and sophisticated analytics to research investment skill.

“This gives us the opportunity to see what a manager is really good at and what their sources of alpha are, as well as their weaknesses.

“Now we are extending this approach to portfolios’ environmental, social and governance characteristics, helping identify ESG exposure and its contribution to performance.”

– Rick Di Mascio, CEO, Inalytics

INALYTICS

About the client

Investment luck or judgement?

Asset managers’ performance track records have long played a dominant role in manager selection. But were those track records down to luck or skill?

The role of data science

Headline performance figures by themselves cannot answer this question. But data science allows us to identify the skills that produced them.

Extending the approach to ESG

Inalytics is now incorporating FTSE Russell’s ESG data into its data analytics, comparing E, S and G pillar scores and overall ESG scores with subsequent performance

Benchmarking investment skill

Inalytics helps institutional investors to identify and benchmark investment skill by focusing on portfolio managers’ decisions, not their performance track records.

The firm’s clients are the world’s largest institutional investors, both asset owners and asset managers: pension funds, sovereign wealth funds, endowments, foundations, multi managers, family offices, as well as fund and portfolio managers.

Inalytics advises clients with US\$2.7trn of client assets under management across 12 countries.



Getting behind track records with data analytics

Past performance is not a reliable guide to future investment success. However, data analytics can help identify the skills and decision making that produced asset managers' track records. As well as identifying skills, analytics can help spotlight managers' areas of strength and potential weakness.

Inalytics uses **four key criteria** in assessing investment skill:

- **Research process:** a skillful asset manager will demonstrate a successful research process that investigates ideas and adds the best of them to a portfolio.
- **Sizing:** a skillful manager will back these ideas with conviction, so they have a real impact on performance and alpha.
- **Rebalancing:** a skillful manager will have the self-discipline not to allow alpha to be diluted by poor selling decisions.
- **Investment horizon:** a skillful manager will have a process in place to ensure long-term positions continue to add value and don't suffer from alpha decay.

When conducting its analysis, Inalytics reviews more than 34 million annual holdings and transactions by portfolio managers.

By connecting the portfolio analytics to the investment process, Inalytics is able to see the effectiveness of different aspects of that process and to identify potential behavioral biases.

In this way, asset owners can judge the specific skills of an asset manager. In the manager selection process, asset owners can screen out managers that don't have skillful decision making and complementary skillsets to their existing managers. And after a manager is appointed, data analytics help asset owners get behind the results and ask the key questions to deepen their due diligence.

Additional information

For more information about Inalytics' approach to identifying investment skill, visit [Inalytics.com](https://inalytics.com)

Visit us for more information about [FTSE Russell's ESG scores and data](#)

Extending the approach to ESG

FTSE Russell's environmental, social and governance ("ESG") scores and data are built from over 300 individual indicator assessments. The scores cover 8,000 securities in 47 developed and emerging markets.

Each company is given an overall ESG score, which breaks down into underlying pillar ("E", "S" and "G") and theme exposures and scores.

FTSE Russell's ESG Scores



Analytics is now incorporating FTSE Russell's ESG scores into its data analytics service, helping asset owners to monitor their ESG equity portfolio in two ways:

- **ESG exposure:** how the equity portfolio is exposed to each of the E, S and G pillars and to the overall ESG score. As exposures to individual E, S and G pillars may not be correlated, asset owners and managers increasingly wish to monitor these exposures both separately and in combination.
- **ESG contribution to alpha:** how much of the portfolio's alpha is coming from these ESG exposures. There's growing interest in how ESG exposures influence portfolio performance, both for individual pillars and in aggregate.

Simplifying the due diligence process

When selecting an asset manager to run an ESG equity portfolio on their behalf, asset owners may consider tens or even hundreds of candidates. A focus on past performance or managers' own claims about their sustainable investment approach are not enough by themselves to ensure a successful search.

Data analytics help institutional investors dig down into transaction histories, helping identify areas of skill and weakness. By focusing on the investment process, sizing, rebalancing and time horizon of managers, investors can identify true skill. Now, these techniques are being extended to ESG exposures and their contribution to performance.

FTSE Russell's ESG scores and data allow investors to understand a company's exposure to, and management of, ESG issues in multiple dimensions. The model is designed for customisation by the user, enabling data to be 'sliced and diced' to meet each user's needs. ESG data analytics can make the due diligence process more efficient, less arduous, and highly productive.

Data science now plays a central role in all our lives. Meanwhile, there's a growing focus on ESG performance at all levels of asset management. Making full use of the latest technologies should help policymakers to simplify sustainable investing and stay one step ahead of the crowd.

ABOUT FTSE RUSSELL

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner, we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers, and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis, and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

CONTACT US

To learn more, visit [lseg.com/ftse-russell](https://www.lseg.com/ftse-russell); email info@ftserussell.com; or call your regional Client Service team office:

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