Interview

with Davide Pelusi
CEO Morningstar, Italy & Iberia

Morningstar, the investment research and management firm with global presence in North America and across Europe, Asia and Australasia, has joined forces with Sustainalytics, the award winning ESG service provider. Starting from its ESG database, Morningstar is releasing Sustainability Ratings for more than 20,000 funds based on environmental, social and governance research.

This initiative sends a powerful message to the industry and will maybe represent a game changer for funds. Eurosif has interviewed Mr Pelusi at Morningstar to find out more.

Were there any external or internal factors that clearly showed your clients had new demands from your products?

Morningstar has always been focused on delivering high quality information to help investors make informed decisions. The introduction of the Morningstar Sustainability Rating for funds is part of this engagement. Socially responsible investment is no longer a niche investment. New generations of investors in every part of the world are asking if the products they choose respect the best practice in terms of environmental management, social compliance and governance. There are two main reasons for this: aligning financial choices with a person's own lifestyle and beliefs or more simply considering these types of investments more profitable.

What have been the most significant shifts in the industry which have favoured the need for increased ESG transparency?

There are two levels of change. The first is linked to the Millennials, the new generation who turns to investments for the first time. According to a Morgan Stanley research study ‘Sustainable signals: the individual investor perspective’ published last February, 84% of young people born after 1980 is interested in ‘saving sustainably’. This percentage is much higher compared to their parents and grandparents. According to UN data, approximately 1,400 asset managers in the world have signed up to the 6 principles for responsible investment set up by the UNPRI in 2006, and which at the end of last year reached a total of USD 60 trillion in assets under management.
Do you think that SRI has to become part of mainstream investments?

In the past applying an SRI strategy mostly meant excluding certain kinds of equities, for instance, tobacco producers. Today, we are looking at a trend which takes into account environmental, social and governance criteria. This indicates that we have to be actively engaged in this direction. We think that the Morningstar Sustainability Rating will contribute to this shift. It will give investors the possibility to compare funds globally against sustainability standards. The rating will show how portfolios are performing in relation to ESG factors, starting from an analysis of individual stocks. This was the strategy behind our partnership with Sustainalytics, a specialised service provider, which screens around four thousand companies in the world and uses 60 to 80 indicators, based on specific research schemes per industry. Furthermore, the research also performs an evaluation of controversies or accidents and of their impacts.

What do you think are the most important priorities of your partnership for other players in the industry?

The research and the Morningstar Sustainability Rating will be of support to investors (both managers and savers) in guiding their investment research. Thanks to the inclusion of these data in the solutions for our clients, it will be easier to integrate information on environmental, social and governance issues in the portfolio construction process. Investors will be able to look at funds under a different light and independently from a specific ESG mandate. The rating will indeed be assigned to all the funds which meet the specific criteria (one of the fundamental requirements is that at least 50% of equities in the portfolio have to receive the Sustainalytics rating). We believe the new sustainability rating will be able to fill the information gap we have at present, particularly for portfolio holdings. The Morningstar Sustainability Rating cannot be used as the only factor in investment decisions or used in isolation as part of a recommendation for the acquisition of a fund.

About Eurosif

Eurosif is the leading European sustainable and responsible investment (SRI) membership organisation whose mission is to promote sustainability through European financial markets. A partnership of national Sustainable Investment Fora (SIFs) across Europe, Eurosif draws from a pool of over 400 organisations and some of the main stakeholders within the sustainable investment industry.

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