

Westfield's Approach to ESG Analysis: A Research-Based Proprietary Framework

Executive Summary:

- Our approach to ESG analysis has evolved alongside the breadth and quality of data available to analyze.
- We believe the insights gleaned from our fundamental analysis are enhanced by ESG analysis and the combination leads to better investment decision making.
- Wildly disparate ESG ratings across data providers highlight the need for a more nuanced, objective approach to assessing ESG risk and opportunity.

Over our 30-year history, Westfield has relied on our culture of introspection as we seek to optimize our approach to investing client funds in an ever-changing investment landscape. More recently, this has included the advent of an era of public disclosure of large swaths of non-financial data generally relating to environmental, social, and governance matters (aka ESG issues). As data availability has increased in recent years, so too have our efforts to analyze this information to improve our understanding of business risks and opportunities. In this short paper we outline our approach to ESG analysis and although aspects of the topic have been implicit to our investment process for some time, we formally outline the key tenets of our approach and how we implement our sustainable investment program here.

Philosophy:

We believe that both financial and non-financial factors can play a material role in long-term value creation and the informational advantage achieved by conducting fundamental research is enhanced by the inclusion of sustainability analysis. We also are committed to taking good corporate citizenship very seriously and believe that it is emblematic of business quality. We do it internally with our hiring practices, our genuine care for the environment, and our diversity and inclusion initiatives, and we value similar commitments by the senior leadership of the companies in which we invest.

Core Tenets of our Approach:

Value Creation Focus – As previously stated, our principal focus remains on identifying and investing in businesses best positioned to create value over the long-term on behalf of our clients. This pursuit implicitly encompasses both financial and non-financial factors that play a material role in that value creation. Our approach is not to play the role of moral or ethical arbiter, but rather to consider analytically how environmental, social, and governance factors can

impact value creation both from a risk and an opportunity point of view when making investment decisions.

Research Independence – As a research-driven organization, we value the independence of our views above all else and we assess the materiality, relevancy, and impact of non-financial criteria in this same manner. We credit the experience and objective opinions of our analysts as a key driver of the firm's success over the years and our approach to analyzing ESG data is no different. Additional sources of information such as public filings and third-party data providers are used as inputs to the process, but ultimately our independent assessment is the most critical element to our research process.

Materiality & Relevance – We believe that non-financial factors can be important, even critical, to the long-term value creating potential of a business, but they are only incorporated to the extent they impact that potential in tangible ways. Industries are impacted differently by various environmental, social, and governance factors, and we believe it is prudent to assess those factors within that context.

Critical Role of Engagement – We view corporate engagement in the form of dialogue with management teams as a critical tool to use both in the assessment of corporate stewardship capabilities, but also as an open channel to communicate our opinions and preferences as shareholders. The degree to which we value these interactions is evidenced by the time we commit to this endeavor and the over 1000 management team meetings we conduct each calendar year.

Implementation:

Westfield's sustainable investment program is implemented utilizing an integrated, research-driven approach which combines deep fundamental research with proprietary sustainability research to enhance our

assessment of investment opportunities and risks. This sustainability research process includes interviews with key management team contacts, reviews of material sustainability metrics from public filings and third-party data, and additional independent research, to name a few.

The output of this proprietary research process is a standardized evaluation framework of a company across several dimensions with consideration given to their current status as well as improvement over time. These dimensions include:

- Product or service impact
- Operating and management practices
- Brand and reputational risks
- Relative peer position

This research is documented and discussed for both existing investments and potential new investment candidates. Much like other fundamental inputs, this research is considered alongside other critical inputs during the portfolio construction process but does not in isolation dictate buy and sell decisions.

The Value of Objective Analysis:

With the influx of managers touting ESG offerings, it can be difficult to wade through all the different options. While different approaches have different use cases, we would leave you with a few observations which may help you select the best path to achieve your sustainable investing objectives. First, the largest passive ESG investment options which have gained much fanfare of late are not as selective in their investments as you might expect. In truth, only a small minority of stocks are excluded from purchase and the balance of portfolio positions are weighted based on an algorithm to optimize a tracking error target and an ESG score. With only small portfolio weight discrepancies from a non-ESG passive alternative, the impact from

that investment choice is also minimized compared to a concentrated and highly selective alternative approach. Second, without a broadly accepted standard for rating companies on ESG metrics, there is a wide disparity in company scoring among ESG data providers as shown in Figure 1.

Figure 1: ESG ratings vary widely among data providers.
ESG Rating Correlations

	S&P	Sustainalytics	MSCI
S&P	100%	67%	38%
Sustainalytics	67%	100%	46%
MSCI	38%	46%	100%

Source: MIT Sloan School of Management, Aug 2019

If you select an investment option that is heavily dependent on one provider’s data, be it a passive approach or an active manager with a single source of ESG data, you are wed to that methodology and, depending on your choice, you can end up with widely different portfolio exposures. Although we believe there is value to the data produced by the third-party providers, we do not believe that any individual data set should be the single source of information for any investment decision. We believe there is tremendous value in the digestion and evaluation of a variety of data sources including proprietary research and direct dialogue with company management teams. In addition to a process that incorporates a wide range of information sources, one cannot discount the value of investment experience and we place the importance of our people and their analytical capabilities second to none in what makes our process successful.

If you would like any additional information on Westfield’s approach to ESG investing or our fund offerings, our Marketing team would happily continue the conversation (clientservice@wcmgmt.com).

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