

## Quotient Investors Unveils New ESG Strategy

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Managing Partners André Bertolotti and Julia Peter-Kerr of Quotient Investors sat down with Brandon Nickerson, director, to speak about their new fund that provides exposure to environmental, social and governance characteristics. They hope that their new ESG strategy will deliver alpha versus traditional public equity benchmarks. The strategy, which is called Quotient Sustainable Alpha, received an allocation this past December and went live on January 1st.

The new strategy helps meet a need from institutional plan sponsors who wish to have exposure to ESG characteristics while maintaining fiduciary responsibility to plan beneficiaries. "We've met several investors who wanted to have ESG exposure but were skeptical of the returns from passive ESG benchmarks or simplistic negative screening" said Andre Bertolotti, CIO at Quotient Investors. "This strategy targets alpha while managing risk versus a large cap equity benchmark such as the Russell 1000, and provides substantial exposure to ESG."

"Quotient's ability to manage a specialized ESG strategy is a testament to the robustness of their investment process in transferring their alpha-generating methodology to a customized market segment," added Deb Boedicker, Principal of Strategic Investment Group, which serves as an adviser to the CalPERS Manager Development Program II in which Quotient Investors is a participant.

The key to the strategy stemmed from a year-long research effort exploring the relationship between company stock prices and ESG exposure. Prior research studied this relationship across the broader market, but Quotient Investors focused at the sector and industry level, providing unique insight into how investors value ESG characteristics. "We found that the relationship between ESG rankings and stock price return varied by sector and industry. For example there is a strong positive relationship between ESG rank and stock price return in the consumer cyclical sector, while the energy sector shows no such relationship," observed Mr. Bertolotti. Quotient Investors combines the ESG ranks for companies with its own proprietary intra-industry valuation model to arrive at a fully integrated rank for each stock.

"There are many institutional investors that have become signatories to the United Nation's Principles for Responsible Investing and are taking active steps to apply ESG considerations across asset classes," said Julia Peter-Kerr, Quotient Investors head of Client Service and Sales. "While working with a number of clients, prospects and consultants, we realized that there were not many fully integrated ESG offerings that seek to deliver both exposure to ESG and alpha versus traditional plan benchmarks." Ms.

Peter-Kerr added that socially responsible mutual funds or benchmarks may not be a good fit for institutions, since their risk and return profiles can differ from the standard broad market indices.

EMF- In 2009, we saw volatility decrease and larger cap strategies outperform their smaller counterparts. Do you believe this trend will continue in 2010 or will other equity strategies become more marketable to investors?

Quotient Investors- Indeed, last year large cap did better than small cap, but not by much: Russell 1000 large cap returned +28.4% versus Russell 2000 small cap +27.2%. I think the small difference in a big up market indicated a broad interest from investors in returning to the riskier equity allocations and a smaller concern that the financial crisis would continue to damage returns. In the past, small cap stocks have been an area that offered higher returns but with more risk. This continues to be our view into 2010.

EMF- ESG Strategies are very common in Australia but are slow to catch on in the United States. What do you think are the first-mover advantages for Institutional Investors to put their funds to work toward meeting environmental, social and governance goals?

Quotient Investors- It is not so much a first-mover advantage for pension plans as it is about taking more responsibility in the companies they invest in. The concept of the arms-length "shareholder" is being replaced by the more engaged "shareowner". Currently, pension plans that are actively moving into ESG investments are finding a management and consultant community that are not fully geared up to address this need. However, these pension plans can move asset managers to pay more attention to ESG and can always tap into the most talented managers.

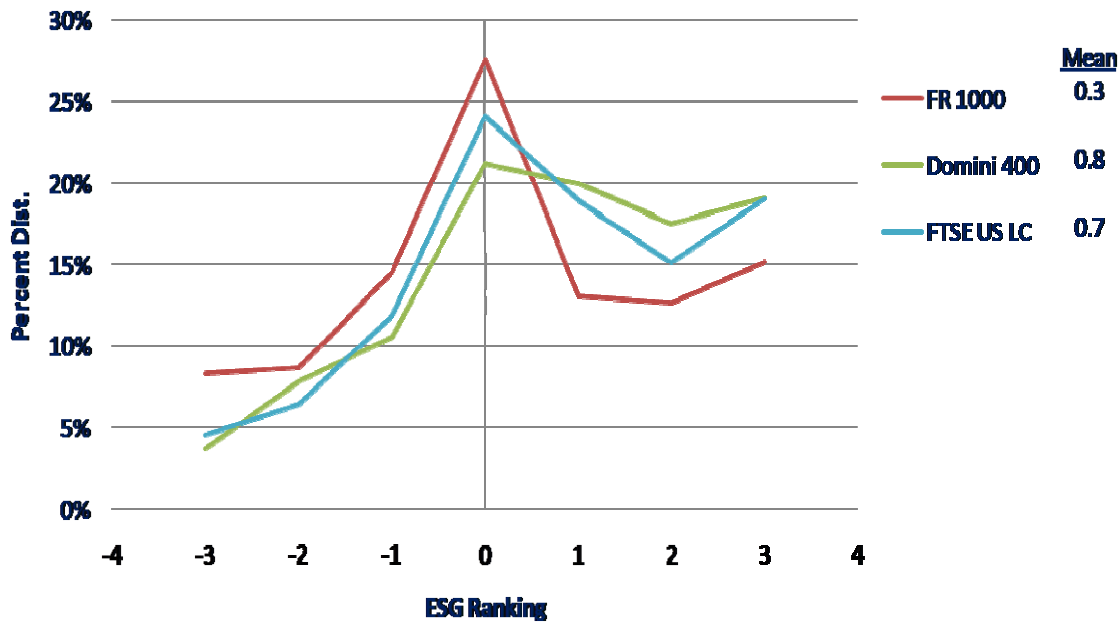
EMF- As these ESG strategies become more mainstream in the United States do you feel as though it will force companies to become more transparent and disclose more information regarding their carbon footprint without government regulation?

Quotient Investors- Yes. Institutional investors have become more active in voicing their concerns to company boards through proxy voting and active engagement. In the past, investors would just screen out a stock if a company was not seen fit to invest in. Now, there is a belief that buying a stock and being an owner in a company is a much more effective way to implement the changes sought.

EMF- If you could, could you explain the screening process in the implementation process?

Quotient Investors- Our premise is that institutional investors can have, at the same time, a portfolio that outperforms the benchmark while providing superior ESG exposure. Our approach is to find how stock returns are being rewarded for the ESG policies of companies. Once we identify this characteristic across the 56 industries we follow in the US market, we fully integrate the ESG data with our current stock valuation model that looks at fundamental and growth properties of the stock.

## ESG rank distribution



[Quotient Investors](#), an SEC registered investment advisor, was launched in March 2008 as part of the CalPERS Manager Development Program II. Quotient is a boutique manager offering multiple US Equity strategies including large cap, small cap, value, and growth. The firm utilizes a disciplined fundamental investment approach with systematic risk control to deliver superior risk-adjusted returns. Quotient is recognized for its proprietary intra-industry investment process which seeks to identify the price drivers that are unique to each industry. Quotient is committed to delivering innovative research, a disciplined investment process, sophisticated algorithmic trading and strong information ratios, together with personalized client service.