

Quotient Hopes New Look At ESG Adds Up To Institutional Interest

Quotient Investors has launched a new equity strategy that incorporates environmental, social and governance factors and seeks to deliver alpha versus traditional public equity benchmarks. The strategy, Quotient Sustainable Alpha, went live on Jan. 1 with a \$9 million allocation for the California Public Employees Retirement System.

"We were the first to propose such a strategy and they were interested enough in it to allocate funding to us and they are following our approach and our progress with the product," CIO Andre Bertolotti said. "We are the only ones that are fully integrating ESG in an institutional equity product, meaning we are benchmarking the Russell 1000."

Bertolotti said being benchmarked to a standard index is the key point of the product. "We are benchmarking the Russell 1000. That was a key point because CalPERS did not have to change the type of allocation" and was able to keep the portfolio in the mainstream program instead of having a side allocation, he said. "That is what is unique about this product."

Julia Peter-Kerr, managing partner at the Quotient, said the key to the portfolio is it does not take the negative screen approach so often associated with socially-responsible investing or ESG strategies. "The reason that is not as attractive is that most of the time those strategies do underperform the market," she said.

"Our question started from as an investment manager, asking, 'can we use this data to add value?'" Bertolotti said. "We didn't ask ourselves, 'is this the right thing to do?'...We just asked the question, is there alpha in this data?"

The firm takes an industry by industry view of the market when constructing its portfolios and when evaluating ESG factors, Quotient found that across the markets, over half of the industries had a very positive response to ESG and a number of industries had a negative response. "With that industry by industry view, we were able to integrate ESG into our existing strategy," he said.

"We are always interested in data and how that could potentially enhance our overall investment process and so that was really the starting place," Peter-Kerr said. "The data really fit very nicely with how we view the world."

Bertolotti said the firm began to evaluate databases that covered the environmental, social and governance criteria about a year and a half ago and since then there has been significant consolidation of the various providers, including RiskMetrics Group's acquisition of KLD Research & Analytics last year and Thomson Reuters' acquisition of Asset4.

"There is a movement to add value by bringing ESG data out to the investment community, and both RiskMetrics and Thomson Reuters are big players in the investment data space," he said. Since the interview, MSCI announced it had reached a deal to acquire RiskMetrics for \$1.55 billion.

"There certainly has been a catering to the investment community, which has been a positive for us," he said. "It looks like all the other type of data we subscribe to. It really has been integrated into the landscape of institutional investors very nicely." Peter-Kerr said that as more companies report ESG information and the coverage becomes stronger, it is expected that ESG will become more mainstream and more prevalent, which will only benefit managers like Quotient.

"I think consultants are thinking, if you are not looking at this type of information, particularly I think going forward, are you considering everything you need to in terms of investing in the company?," she said.

Peter-Kerr said the initial market for the strategy will likely be the larger public plans and foundations and endowments, including any institutions that are signatories to the Principals for Responsible Investing, which includes CalPERS, the California State Teachers Retirement System, Connecticut Retirement Plans and Trust Funds, State Universities Retirement System of Illinois, New York City Employees Retirement System and the Illinois State Board of Investment.