FUND INTELLIGENCE

# Federated Hermes eyes active ESG opportunities in pandemic's wake

*Director of responsible investing also questions the validity of third-party ESG ratings*

*Shweta Karikehalli | June 16th 2020 |*

Active management will be key at the heart of the most ESG funds that see marked asset growth in the aftermath of coronavirus pandemic-catalyzed market upheaval, **Federated Hermes** Director of Responsible Investing **Martin Jarzebowski** argued.

Ninety-two percent of ESG funds are delivered through actively managed portfolios, according to a **Deloitte** 2020 Insights report. The Federated Hermes executive offered his view that the space could grow further after both active mutual funds and index ETFs with sustainable flavors saw strong inflows in the first quarter.

Jarzebowski argued that Federated Hermes is especially well positioned to find active invest opportunities because of its in-house engagement and stewardship divisions, as opposed to other firms that outsource ESG research to third-party ratings. This also helps investors distinguish between ESG leaders and laggards, he said.

The $605.8bn fund group's fleet of ESG subject-matter experts directly engage with a company's board and C-suite to keep a finger on that company's ESG pulse, Jarzebowski explained.

"You need a mechanism in order to be a little bit more proactive and more forward looking, and that's really where being able to engage directly with a corporate issuer and being able to understand where the ESG puck is headed, so to speak, for that particular company is extremely important," he said.

The Pittsburgh-headquartered asset manager acquired London-based ESG specialist **Hermes Investment Management** in July 2018. In January, the firm changed its name from **Federated Investors** to Federated Hermes to emphasize its sustainable investing focus and global reach.

During Federated Hermes' first quarter earnings call, CEO **Christopher Donahue** said EOS, the company's stewardship provider, represents $1trn of assets, which is up from $877bn at the end of December. He also noted that the business has hired several new US based engagers to converse with companies about ESG issues and intends to add more.

The coronavirus pandemic is shining a spotlight on the social element of ESG, historically viewed as intangible and difficult to quantify, Jarzebowski said.

"A corporation is part of a broader human network comprised of customers, suppliers, and employees and so that human dimension is sitting right at the forefront," Jarzebowski said. "So it's never been more important to understand how a corporation manages its human capital, its supply chain and how it protects its customers and employees in terms of health and safety."

For instance, he said, health and safety are some of the most financially relevant issues analysts must consider when evaluating the retail sectors. As economies start to open back up and people begin frequenting stores again, Jarzebowski said it will be important to pay attention to companies that are enforcing protections for customers and employees.

“They're just intelligent business practices which will position the companies who execute best as the long-term secular winners within their industry,” he noted.

Though Federated Hermes doesn’t have any socially focused funds in the works, Jarzebowski said ESG considerations are incorporated across all of its different products and investment teams, regardless of asset class. The business is well known for its money market funds, which represent almost 75% of its total AUM, according to April data.

**Pictet Asset Management** Senior Product Specialist **Marc-Olivier Buffle** agreed that emphasis on sustainable approaches to investing will endure after the pandemic.

The $183bn Swiss firm manages 14 thematic strategies, 12 of which have outperformed year to date and particularly during the drawdown in February and March, according to Buffle. The firm’s most commercially successful product year to date is its Global Environmental Opportunities Fund, a European strategy which has grown almost $1bn, he said.

“Basically, what we have observed over the last couple of months is definitely a large increase,” Buffle said. “We've had 4% of inflows year to date in the field of thematic equities due to the increased interest in that area, but also to the performance.”

Buffle said he believes social issues will increase because of the pandemic, noting polarization of populations. Though an unfortunate situation, he said he believes strategies related to this dimension might be of interest to clients.

He also shared the belief that the creation of ESG indices could sometimes be questionable.
“What you're doing is you're basing yourself mostly on publicly available data,” he said.

Nonetheless, **BlackRock**’s sustainable ETFs raked in about $10bn in Q1. Executives at the world’s largest asset manager are forecasting that investors of all kinds will rebalance into ESG portfolios in light of the ESG issues making headlines because of the pandemic.

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**Past performance is no guarantee of future results.**

There is no guarantee that considering ESG risks will be a successful investment approach.

Stocks are subject to risks and fluctuate in value.

Federated Hermes assets are as of March 31, 2020.

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.



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