Schroders Launches SustainEx: A Cutting Edge Approach to ESG

May 20, 2019

Today, global asset manager Schroders has announced the launch of SustainEx, a proprietary investment tool designed to quantify social and environmental impacts across individual companies, industries and geographies. It is the first framework that attempts to translate social and environmental impacts into financial costs or benefits. Through this platform, investment teams will now have access to a systematic and quantitative measure of sustainability risk that can be applied across investment strategies.

Andrew Howard, Schroders’ Head of Sustainable Research, commented:

“Companies and countries are coming under growing pressure from regulators and society to consider their impacts on challenges like climate change, pollution and obesity. As those social tensions become more acute, it’s becoming more likely that these social and environmental externalities will result in tangible financial costs.

“We believe it is therefore more important than ever that investors consider the social impacts of companies and portfolios, rather than relying purely on financial measure.

“How companies make money is as important as how much they make today. We developed SustainEx to provide a quantitative view of the threats and opportunities companies and markets face to help our analysts, fund managers and clients navigate an increasingly complex world.”

SustainEx combines economic logic with sustainability expertise, industry knowledge, company data and academic research to deliver a transparent, impartial and robust measure of corporate impact across around 9,000 global companies. It analyzes over 47 measures of social and environmental impact, examines over 400 academic and industry studies and reviews over 70 available company-specific data points, as well as leverages unconventional data from relevant public sources. The SustainEx model then calculates an annual cost or benefit created per $100 of revenue the company produces.

In total, the analysis found that the earnings listed companies generate for shareholders currently total $4.1 trillion, which would fall by 55% to $1.9 trillion if those social and environmental impacts crystallized as financial costs. One third of companies would become loss-making. The risk to profits and competitive positions is clear.

The chart below shows the combination of net earnings and social and environmental costs or contributions in each sector, based on SustainEx modeling. The dark blue bars represent the profits of each sector and the green bars the offsetting externalities, most of which are negative. While all sectors are at least slightly profitable currently, close to half would become loss making if invoiced for their social and environmental impacts.
Schroders investment professionals across asset classes are taking the results of the model into account, in addition to Schroders’ existing toolkit of Environmental, Social and Corporate Governance analyses and frameworks. For example, SustainEx is a core component of Schroders’ recently-launched Sustainable Multi-Factor Equity (SMFE) strategy, with its analysis helping investors navigate the growing impacts from social and environmental change. Schroders’ SMFE is a systematic equity strategy with a fully integrated approach to sustainable investing. It is designed to provide investors with ongoing access to the best thinking in two increasingly important fields of investment: factor investing and sustainability. The strategy has raised $1 billion globally since launching in September 2018.

Charles Prideaux, Global Head of Product and Solutions, Schroders, commented:

“Our clients are increasingly asking us how we are factoring sustainability into our investment approach. Schroders’ SustainEx model is a ground-breaking tool that ensures these factors are fully integrated into the investment approach of the SMFE fund to help deliver better long-term sustainable returns for our clients.”

SustainEx is part of the toolkit of Environmental, Social and Corporate Governance analysis and frameworks that Schroders is developing. The toolkit includes ten proprietary investment tools include Schroders’ Climate Progress Dashboard, Carbon Value at Risk.

* Schroders analyzed 9,000 companies and ranked the world's main stock markets according to their overall impact on society, putting a dollar value to their social and environmental impacts. Schroders has aggregated this analysis according to their stock-market domicile or industry group.

For further information, please contact:

Catherine Johnson of Prosek at 347-486-6335, cjohnson@prosek.com
Jennifer Manser of Schroders at 212-632-2947, jennifer.manser@schroders.com
Note to Editors

Schroders plc

As a global investment manager, we help institutions, intermediaries and individuals meet their goals, fulfil their ambitions, and prepare for the future. But as the world changes, so do our clients’ needs. That’s why we have a long history of adapting to suit the times and keeping our focus on what matters most to our clients.

Doing this takes experience and expertise. We bring together people and data to spot the trends that will shape the future. This provides a unique perspective which allows us to always invest with conviction. We are responsible for $536.7 billion (€469.5 billion/£421.4 billion)* of assets for our clients who trust us to deliver sustainable returns. We remain determined to build future prosperity for them, and for all of society. Today, we have 5,000 people across six continents who focus on doing just this.

We are a global business that’s managed locally. This allows us to always keep our clients’ needs at the heart of everything we do. For over 200 years and more than seven generations we've grown and developed our expertise in tandem with our clients’ needs and interests.

Further information about Schroders can be found at www.schroders.com/us.

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*as of December 31, 2018