

TIM PAULIN

TOUCHSTONE INVESTMENTS

Touchstone Investments conducts rigorous due diligence when choosing mutual funds to sell under the Touchstone name to advisors.

Tim Paulin, its senior vice president for investment research and product management, points to investable opportunities in areas like gender inequity, climate change and resource usage, but believes it is 'not enough to hope that these ESG hot dots remain in that position while patting ourselves and our clients on the back for only investing in those companies'.

Touchstone focuses its efforts on asset managers that can evidence long histories of integrating ESG factors into their investment processes and active engagement with companies to drive improvements in their ESG standards.

In September, it renamed the Touchstone Premium Yield Equity fund as the Touchstone International ESG Equity fund, changing the fundamental investment approach to one that integrates ESG research and appointing Rockefeller Asset Management as sub-advisor on the strength of its track record in ESG integration and shareholder engagement.

'While many asset managers are anxiously raising their hands to say, "we can do that", the reality is that managers often lack evidence that they can effectively integrate ESG criteria while both delivering alpha to investors and engaging companies to improve ESG performance,' said Paulin.

'Many managers simply layer third-party ratings and screens on top of their investment-focused processes. We should be demanding of these managers "show me your record for accounts integrating ESG." There are relatively few managers and strategies that can offer



professional buyers such evidence.

'Further, ESG investing is, by its nature, an active pursuit. Sure, it's easy to use a rating system to invest only in those companies that already rate highly on ESG criteria. There are many companies that already rate very highly on ESG metrics, but the greatest opportunity is to make ESG laggards better. If the market is largely efficient in reflecting information in stock prices, why would we think that old ESG news would any more effectively drive stock prices than old financial news?

'If we really want to drive ESG improvement, actively engaging with company management – not to threaten them but to help them improve on ESG metrics – is a quicker path to improvement than hoping that already highly-rated ESG firms don't falter or lower-rated ESG firms recognize their opportunities.

'Corporate engagement accelerates improvement and there are relatively few asset managers with the clout, expertise and resources to aid in that process.'

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Investment return and principal value of an investment in a fund will fluctuate so that an investor's share, when redeemed, may be worth more or less than their original cost.

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