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ESG Viewpoint: Boston Common Asset Management

RepRisk interviews Constantina Bichta, PhD, Principal ESG Researcher at Boston Common Asset Management

Boston Common Asset Management, LLC is an investment manager and a leader in global sustainability initiatives. It specializes in long-only equity and balanced strategies and pursues long-term capital appreciation by seeking to invest in diversified portfolios of high quality, socially responsible stocks. Through rigorous analysis of financial, as well as environmental, social and governance (ESG) factors it identifies what it believes are attractively valued companies for investment. As a shareholder, it urges portfolio companies to improve transparency, accountability and attention to ESG issues.

Constantina serves as Boston Common's Principal Environmental, Social and Governance (ESG) Researcher. She conducts ESG research and analysis in both international and US securities considered for Boston Common's portfolios. She also engages portfolio holdings on ESG issues, especially when they appear to fall behind industry practice related to ESG performance.

RepRisk: What do you feel are the most relevant or pressing environmental, social or governance (ESG) issues in the US at present?

Constantina Bichta: Boston Common has identified and will be working on several key ESG issues in the coming year such as Board Diversity, Political Contributions Disclosure, Chemicals Safety, Shale Gas and Hydraulic Fracturing, Human Trafficking and Human Rights Due Diligence, Global Health and Childhood Obesity, Burma Re-entry, and Labor Rights in Global Supply Chains, just to name a few.

We would like to highlight our ESG engagement initiatives in three areas:

1. Water: Boston Common is concerned about the impact of climate change, and global supply chains on water resources, and consequently water availability and community access to fresh, clean and affordable water. A vast amount of production is outsourced overseas in India, China, Indonesia, and Thailand, countries known to face water scarcity issues. Therefore we are beginning to engage portfolio companies on their water footprint with a special focus on how they collaborate with local communities and stakeholders to address water scarcity issues. Specifically, we ask companies to assess their water footprint at the operational level and all the way down their supply chain; to measure their water usage, especially freshwater withdrawals, as well as their wastewater output; and to map out company facilities and identify sites located in water scarce areas.

2. Shale oil/gas and hydraulic fracturing: Hydraulic fracturing is a new technology that allows energy companies to tap into oil and gas trapped below the earth surface in tight rock formations. The method is highly controversial given the chemicals used and the water-intensity of the process. This technology has also faced opposition from local communities in the US, Australia and other countries. For the past three years, Boston Common has engaged the industry and helped develop investor guidelines for best practices and risk disclosure for hydraulic fracturing practices; they are now publicly supported by investors with over USD 1 trillion assets under management on three continents.

3. US sanctions and Burma re-entry. In June 2012 the US eased its sanctions prohibiting US investment in Burma. The US State Department has consequently issued reporting requirements in conjunction with new general licenses permitting investment of financial services in Burma. Until that shift in US policy, Burma had been the subject of US sanctions for 15 years. Boston Common remains, however, concerned about Burma as the country continues to rank at the bottom of the global corruption index. Further, Burma is seeking foreign investment in extractives, minerals and apparel industries without providing any assurance to investors of environmental, labor or human rights regulatory frameworks and their appropriate enforcement. Boston Common, along with other investors, submitted comments to the US State Department on the new Reporting Requirements on Responsible Investment in Burma. We have already started dialogues with portfolio companies asking them to apply their own due diligence process and evaluate labor, environmental and human rights issues on the ground as they consider entering Burma.

RR: How do you incorporate these non-financial risks/factors into your investment analysis?
CB: Boston Common integrates financial and sustainability factors into our investment process because we believe Environmental, Social and Governance (ESG) research helps us find companies that could benefit over the long-term from three sources:

- Visionary management teams can capitalize on new product market opportunities and revenue streams;
- Productivity and efficiency improvements should support higher profit margins;
- Avoiding unanticipated costs stemming from inadequate attention to ESG risks.

As a result, we believe portfolio quality, return potential and risk reduction are enhanced through integrating sustainability considerations into financial research and portfolio decision making.

We consider ESG factors in several stages of our investment process. In the initial evaluation of our investment universe, we exclude the weakest companies according to our set of comprehensive ESG criteria. Next, we add companies to our focus list that we view as attractive based on ESG factors. Finally, we perform in-depth ESG analysis on companies prior to making the final investment decision.

We prefer to buy the strongest companies from an investment and ESG perspective. However, when we are not able to find enough companies with strong investment and ESG profiles, we also consider companies that are average from an ESG perspective if we believe they help bring diversification and balance to the portfolio. In these instances, we use our voice as shareholders to raise the social profile of our portfolios by urging the management of portfolio companies to improve their policies and operations. We are activist, engaged shareholders, and use dialogue, proxy voting, and coalition building to empower corporations to manage for the long term.

RR: How do you make use of RepRisk data in your research and analysis processes?

CB: RepRisk is a valuable data source in our research and analysis. RepRisk's Reputational Index (RRI) allows us to monitor our portfolios and an individual company's performance on a day-to-day basis. RRI provides us with flags and alerts; a poor RRI rating can alert us to news or developments that can either bear reputational risks for a portfolio holding or perhaps suggest a breach of a company's performance with the portfolio's ESG guidelines.

Of extreme importance to us is the fact that RepRisk uses local language sources worldwide. This helps us to learn about company projects, business developments and controversies wherever they occur. To know about a company's conduct or misconduct as it unfolds globally on daily basis, is pivotal in our work.