Germany’s AfU, RepRisk Ally for Fund ESG Risk Reports

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AfU Investor Research, the investment fund data collection and analysis arm of Frankfurt-based research firm AfU, is releasing a new service that will enable buy-side institutions to objectively access the environmental, social and corporate governance (ESG) risks of investment funds, developed in partnership with Swiss ESG risk data provider RepRisk.

The Fund Screening Reports combine AfU’s holdings data detailing the specific companies held by 31,000 third-party global funds with RepRisk’s reputational risk scores for individual companies—based on ESG factors such as association with child labor, corruption, or pollution—to calculate an average reputational risk index (RRI) score of between zero and 100 for each fund, where a score of 100 represents the highest risk, and weighted according to its investment in each company.

The reports are aimed at institutional investors and fund managers, which could use the scores to evaluate their own portfolios and funds, and present the results to existing or potential clients, says Norbert Paulsen, chief executive officer at AfU. Private banks and pension funds could also use the product to provide a cost-effective ESG fund screening capability for the companies they invest in, he adds.

“We think ESG themes are not only becoming increasingly important, but they already are part of the mainstream criteria relevant for investment decisions,” Paulsen says. “So in early 2012, we... started the joint development of an ESG fund screening product with RepRisk.”

The reports—which will launch in March, with a tiered fee structure based on whether a client is screening an individual fund, a whole class of funds or all the funds of a given asset manager—will address the discrepancy between what companies claim to do in terms of ESG activities and what they actually do, which in the past has led some funds to be wrongly labeled as “sustainable,” says RepRisk chief executive Philipp Aeby.

“There has been increased interest in responsible or sustainable investments. But, unfortunately, it’s unclear what people mean by ‘responsible’ and ‘sustainable.’ Very often, it’s more about the investment process, and very little concern is given to what ends up in the fund,” Aeby says. “By combining our data with AfU’s holdings information, we can look at the ESG risk of a company and come up with a quantitative measure for the sustainability content of the fund, irrespective of what the intention was when the fund was set up.”

Investors should use the RRI score with other factors to determine their own threshold of what constitutes a “risky” investment, Aeby says. “The idea is not so much to give a number, but to allow investors to choose. For example, if you invest in oil and gas, you have considerable exposure to companies in emerging markets and have high ESG risk exposure. But at the same time, it is highly profitable. Our goal is just to provide transparency,” he says.