

Understanding ESG

ESG represents a present-day crystallization of the socially responsible, progressive agenda that Amalgamated Bank has advanced for almost a century. In this series, Invesco and Amalgamated Bank take a closer look at the investment phenomenon that is shaping how the bank and its clients view both the world and their role within it.

Authors

Cynthia Dalagelis

Head of ESG Investments,
Amalgamated Bank

Glen Yelton

Head of ESG Client
Strategy NA
ESG Investing
Invesco

Henning Stein

Head of Global Thought
Leadership
Invesco

Part I: Combining values with expertise

The responsible investing phenomenon

More and more investors are incorporating environmental, social and governance considerations – together known as ESG – into their decisions. This is thanks to the spectacular rise of responsible investing, arguably the most significant investment trend of recent decades. ESG assets under management are expected to exceed \$50 trillion by 2025, accounting for a third of all AUM globally, with the US tipped to lead the way¹. This is neither a fad nor a niche.

The fundamental notion of responsible investing isn't new. The history of Amalgamated Bank, which has fought for greater justice and sustainability for nearly a hundred years, proves that. But the concept has never been as popular, as effective and as compelling for investors as it is today.

It's a phenomenon that has moved from the margins to the mainstream to become a "must-have" rather than a "nice-to-have". And the ESG landscape that has emerged from it is continuing to evolve – often at a rapid pace.

This means no organization can adopt a "business as usual" philosophy. The world has changed, it's still changing and everyone has a part to play in ensuring it keeps changing in a positive, lasting way. We recognize that.

This is the kind of thinking that guided Amalgamated when it partnered with Invesco to develop a new suite of ESG products. Our collaboration culminated in ResponsiFunds – a range of six "impact" funds centered on social, gender and climate-related issues.

We want to briefly tell you the story of these funds, because we believe it reveals a lot about what really matters in the sphere of ESG. Ultimately, as we'll explain, this is about knowing who you are and realizing what you value – and understanding how you can put your values into action through investing.

Understanding how we view the world

Amalgamated has always been a bank for change-makers – sustainable organizations, equitable causes, people who prize social justice and care about how their money is used. But exactly how might this ethos work in today's realm of cutting-edge ESG?

What's required is, in large part, a journey of self-discovery. Amalgamated's commenced in early 2020, when senior representatives of the bank first met their Invesco counterparts to discuss what would eventually become the ResponsiFunds line-up.

The first step was to engage in open, honest, totally transparent conversations. It was vital to establish Amalgamated's aims and those of its clients and end investors. This gave us some initial building blocks and a broad notion of key themes and potential asset allocations.

Even so, simply articulating a desire to protect rights, give the under-represented a voice and save the planet from environmental collapse is one thing. Capturing these ideals in advanced investment products that draw on the power of digitization and big data to generate strong returns is something else entirely.

In collaboration with



This is because ESG-led solutions are essentially rules-based. They rely on an ever-growing wealth of information to determine which investments satisfy an organization's preferences and which don't. Data is the lifeblood of the quest to balance performance with doing the right thing.

So responsible investors have to think long and hard about their view of the world. They need to figure out what's genuinely acceptable to them and what isn't. This requires them to explore both the bigger picture and the much smaller details. It forces them to get to the absolute heart of what they are and what they believe. And that's what Amalgamated did.

From iteration to impact

We resolved at an early stage that equities, fixed income and multi-dynamic factor strategies would constitute the funds' core investment process but that these would be directly informed by social, gender and climate-related considerations. This customized approach differs from those taken by many firms, which simply use off-the-shelf strategies for the bulk of their exposure and then incorporate supplementary ESG elements.

Having committed to a more demanding construct, it was time to find the right data providers. To create products fit for the market, our vendors had to be clearly capable of giving us the timely and accurate information needed to ensure the ResponsiFunds' continued alignment with our stated values. Just as importantly, we needed to be pragmatic about the limits of the information they could supply. After exhaustive due diligence, we chose JUST Capital, Equileap and CDP (formerly the Climate Disclosure Project).

The iterative process of assembling the funds then began in earnest. Extensive back-testing reinforced our basic choices and revealed more about risk tolerances and the types of investments we wanted to encourage or disregard. This included identifying certain "Do no harm" exclusions – industries or sectors to avoid completely – which were then integrated into the design. For example, we found an opportunity to gear our portfolios even more heavily toward a net-zero economy – in keeping with Amalgamated's pledge to support 100% renewable energy.

Finally, after a serious team effort, we felt we had a set of funds truly aligned with Amalgamated's culture and ambitions. By talking openly and digging ever deeper, we had created a group of products we could sincerely think of as "real" – an accurate reflection of our shared beliefs and our collective passion for bringing about positive, lasting change.

So what does this story tell us? Above all, it shows responsible investing isn't a task to be undertaken lightly or using a "one size fits all" outlook. Creating robust, tailored investment solutions that focus on helping combat oppression, dismantle systems of discrimination and stave off the threat of ecological catastrophe demands considerable collaboration, a lot of insight and maybe even a little soul-searching.

We believe this combination of values and expertise will ultimately translate into real-world impact.

1. See, for example, Bloomberg: "ESG assets may hit \$53 trillion by 2025, a third of global AUM", Feb. 23, 2021.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Important information

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision. As with all investments there are associated inherent risks. This should not be considered a recommendation to purchase any investment product. This does not constitute a recommendation of any investment strategy for a particular investor. Investors should consult a financial professional before making any investment decisions if they are uncertain whether an investment is suitable for them. Please obtain and review all financial material carefully before investing.

Institutional Separate Accounts and Separately Managed Accounts are offered by Invesco Advisers, Inc. and other affiliated investment advisers, which provide investment advisory services and do not sell securities.

Certain other vehicles mentioned are not offered by Invesco Advisers, Inc. and are available via other affiliated entities which, like Invesco Advisers, Inc., are indirect, wholly owned subsidiaries of Invesco Ltd.

All information as of July 31, 2021, in USD, unless stated otherwise.

This document is issued in:

- in the **US** by Invesco Advisers, Inc., Two Peachtree Pointe, 1555 Peachtree Street, N.E., Suite 1800, Atlanta, GA 30309.