

# SELECTING EXTERNAL MANAGERS

## EXCELLENCE IN EVALUATING ESG CAPABILITIES

Look beyond promises. Evaluate process, proof and performance.



**YOUR MISSION**  
 Select managers with ESG capabilities that are material, credible and investment-driven - so your portfolios are resilient and future-ready.

### THE 5 PILLARS OF ESG EVALUATION



**1. ESG INTEGRATION**  
 ESG factors are embedded in investment decisions, risk management, and portfolio construction.



**2. THEMATIC INVESTING**  
 Clear, well-defined themes with a disciplined process and valuation awareness - not just trend-following.



**3. IMPACT INVESTING**  
 Intentionality, additionality and measurable outcomes driven by clear impact objectives.



**4. STEWARDSHIP & ENGAGEMENT**  
 Active, strategic engagement that influences outcomes and protects long-term value.













**5. ORGANIZATIONAL ESG MATURITY**  
 Strong governance, capability, accountability and incentives embedded across the firm.

★ **Golden Rule:** Focus on investment relevance, evidence of implementation and outcomes (not just policies and marketing).

### WHAT TO ASK, HOW TO INTERPRET & WHAT TO WATCH FOR

PILLAR	KEY QUESTIONS TO ASK	WHAT STRONG ANSWERS LOOK LIKE	RED FLAGS TO WATCH
<b>ESG INTEGRATION</b> 	<ul style="list-style-type: none"> <li>How is ESG integrated into your investment process?</li> <li>At what stage is ESG considered?</li> <li>Can you share examples where ESG changed an investment decision?</li> <li>How do analysts and PMs work together on ESG?</li> <li>How do you define material ESG issues by sector?</li> </ul>	<ul style="list-style-type: none"> <li>Clear explanation tied to research, valuation, risk and portfolio construction</li> <li>Specific examples of decisions impacted by ESG</li> <li>Sector-specific materiality frameworks</li> <li>ESG embedded throughout the investment flow</li> <li>Use of internal research, not just third-party scores</li> </ul>	<ul style="list-style-type: none"> <li>ESG team is separate from investment teams</li> <li>No examples of ESG impacting decisions</li> <li>Reliance on third-party ESG scores (only)</li> <li>Vague statements and generic language</li> <li>ESG considered only at reporting stage</li> </ul>
<b>THEMATIC INVESTING</b> 	<ul style="list-style-type: none"> <li>How do you define your themes?</li> <li>How do you avoid theme drift?</li> <li>What percentage of revenues must align with the theme?</li> <li>How do you evaluate valuation within themes?</li> <li>How do you measure thematic exposure over time?</li> </ul>	<ul style="list-style-type: none"> <li>Clear structural themes with investment thesis</li> <li>Defined eligibility criteria and monitoring</li> <li>Quantitative thresholds and methodology</li> <li>Strong valuation discipline</li> <li>Ongoing monitoring and reporting of thematic exposure</li> </ul>	<ul style="list-style-type: none"> <li>Themes are too broad or loosely defined</li> <li>Heavy marketing language, weak method</li> <li>No discussion of valuation risk</li> <li>Portfolio holdings inconsistent with theme</li> </ul>
<b>IMPACT INVESTING</b> 	<ul style="list-style-type: none"> <li>How do you define impact?</li> <li>What specific impact outcomes do you target?</li> <li>How do you measure and verify impact?</li> <li>How does impact influence investment selection?</li> <li>Can you demonstrate additionality?</li> </ul>	<ul style="list-style-type: none"> <li>Clear distinction from ESG integration</li> <li>Specific, measurable outcomes (KPIs)</li> <li>Robust measurement and verification framework</li> <li>Impact influences underwriting and portfolio construction</li> <li>Evidence of additionality vs. status quo</li> </ul>	<ul style="list-style-type: none"> <li>Confuses impact with ESG integration</li> <li>No measurable impact KPIs</li> <li>Reliance only on SDG mapping</li> <li>No evidence of additionality</li> <li>Reporting only highlights positives</li> </ul>
<b>STEWARDSHIP &amp; ENGAGEMENT</b> 	<ul style="list-style-type: none"> <li>How do you prioritize engagement topics?</li> <li>What does success look like?</li> <li>Can you share examples of failed engagements?</li> <li>How do engagements influence investment decisions?</li> <li>What escalation mechanisms do you use?</li> </ul>	<ul style="list-style-type: none"> <li>Materiality-driven prioritization</li> <li>Clear objectives, milestones and escalation paths</li> <li>Transparency on both successes and failures</li> <li>Engagement outcomes inform voting, valuation, or divestment</li> <li>Escalation: voting, collaboration, board engagement, divestment</li> </ul>	<ul style="list-style-type: none"> <li>Focus only on number of engagements</li> <li>No escalation framework</li> <li>Engagement team is siloed</li> <li>Generic voting policies</li> <li>No evidence of difficult or controversial engagements</li> </ul>
<b>ORGANIZATIONAL ESG MATURITY</b> 	<ul style="list-style-type: none"> <li>How are ESG responsibilities distributed across the firm?</li> <li>How is ESG performance reviewed internally?</li> <li>How are incentives aligned?</li> <li>How are investment teams trained?</li> <li>How does leadership oversee ESG strategy?</li> </ul>	<ul style="list-style-type: none"> <li>Clear ownership and accountability</li> <li>Governance and oversight at senior level</li> <li>Incentives aligned where relevant</li> <li>Ongoing training and capability building</li> <li>Active leadership involvement in ESG strategy</li> </ul>	<ul style="list-style-type: none"> <li>ESG concentrated in small team</li> <li>Weak governance structure</li> <li>No link to incentives/ accountability</li> <li>Gap between marketing and operations</li> <li>No investment in internal capabilities</li> </ul>

#### HOW TO INTERPRET ANSWERS

STRONG MANAGERS TYPICALLY...	WEAK MANAGERS TYPICALLY...
 Use specific examples and evidence	 Use generic statements and vague language
 Explain how ESG impacts financial outcomes	 Focus on policies and aspirations
 Show integration across teams and processes	 ESG is siloed or "tacked on" to the process
 Acknowledge trade-offs and limitations	 Overly polished, one-sided narratives
 Provide data, KPIs and transparent reporting	 Provide marketing decks, not data

#### THE EVALUATOR'S CHECKLIST

- Define which ESG capabilities matter most for your mandate, asset class and client base.
- Use the 5-pillar framework to structure every manager assessment.
- Ask for evidence: examples, data, case studies, quarterly reports.
- Triangulate answers with third-party research, portfolio analytics and reference checks.
- Document strengths, risks, and open questions.
- Monitor continuously post-election.

#### EXCELLENCE OUTCOMES

-  **Lower risk, stronger resilience**  
 Managers with strong ESG capabilities better navigate long-term risks.
-  **Better returns, better alignment**  
 ESG integration and stewardship enhance risk-adjusted performance.
-  **Credible impact**  
 True thematic and impact approaches deliver real-world outcomes.
-  **Stronger partnerships**  
 Managers who are transparent, accountable and engaged create long-term value.