



Press Release

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## **Scientific Beta ESG filter allowed Renault, Nissan and Mitsubishi to be excluded from ESG indices**

**The strict filter avoided investors being stuck with these stocks in the wake of the Carlos Ghosn scandal**

A pioneer in the reconciliation of non-financial objectives and financial performance through responsible investment smart beta, Scientific Beta administers responsible investment indices that are tracked by circa USD15bn of institutional money. Scientific Beta was recently selected by Desjardins Global Asset Management to design a family of indices that respect high responsible investment standards and materially reduce exposure to climate change risk.

While encouraging better corporate practices in environmental, social and governance (ESG) matters, the indices in the SciBeta Desjardins Responsible Investing family also exclude companies that are involved in controversial activities or in critical controversies with respect to principles of responsible business conduct. Critical controversies concern fundamental issues and have high adverse impact on a large scope; fundamental issues are defined in reference to the Ten Principles of the United Nations Global Compact, which cover human rights, labour, environment and anti-corruption and are derived from international conventions and declarations that enjoy global support.

“Being involved in critical controversies in the area of the environment (Renault is suspected of having cheated on emissions tests, Nissan has admitted to it and Mitsubishi has been fined for misrepresenting the fuel efficiency of its vehicles), none of these companies was eligible for inclusion in the SciBeta Desjardins Responsible Investing indices at the latest rebalance,” Frederic Ducoulombier, Director of Risk and Compliance at Scientific Beta, explains.

By separating ESG performance and financial performance objectives in index construction, Scientific Beta ESG indices treat responsible investing policies as fiduciary constraints and build smart beta indices that can add performance in a robust manner by establishing exposure to rewarded risk factors once these exclusions have been carried out. This means that unacceptable ESG performance cannot be offset by attractive financial characteristics and reciprocally, that the ESG

characteristics of compliant stocks are not allowed to water down factor tilting or oppose scientific diversification.

This clearly differentiates Scientific Beta's construction approach from investment strategies that select or weight securities on the basis of metrics integrating ESG and financial data and are often promoted by advocates of the integrated ESG approach.

For Noël Amenc, CEO of Scientific Beta, “traditional integrated approaches promoted by a large majority of ESG solution providers that target an ESG or low carbon score without any exclusions and ultimately offset the poor ESG scores of some companies with the good ESG scores of other companies or, worse, offset the poor ESG score of a firm with the same firm's good exposures to selected financial factors, are practices that do not correspond to what a truly responsible investor should implement.”

“In a passive investment context, outright exclusions on the basis of international norms and relative ESG performance also send clear signals to companies regarding the progress they need to make in respect of environmental, social and governance issues to meet their basic responsibilities and position for sustainable success,” adds Noël Amenc.

The Scientific Beta white paper, “[ESG Incorporation – A Review of Scientific Beta's Philosophy and Capabilities](#),” can be downloaded through the following link:

[ESG Incorporation – A Review of Scientific Beta's Philosophy and Capabilities, Scientific Beta White Paper, September 2018](#)



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## About ERI Scientific Beta

ERI Scientific Beta aims to be the first provider of a smart beta indices platform to help investors understand and invest in advanced beta equity strategies.

Established by EDHEC-Risk Institute, one of the very top academic institutions in the field of fundamental and applied research for the investment industry, ERI Scientific Beta shares the same concern for scientific rigour and veracity, which it applies to all the services that it offers investors and asset managers.

The ERI Scientific Beta offering covers three major services:

- **Scientific Beta Indices**

Scientific Beta Indices are smart beta indices that aim to be the reference for the investment and analysis of alternative beta strategies. Scientific Beta Indices reflect the state-of-the-art in the construction of different alternative beta strategies and allow for a flexible choice among a wide range of options at each stage of their construction process. This choice enables users of the platform to construct their own benchmark, thus controlling the risks of investing in this new type of beta (Smart Beta 2.0).

Within the framework of Smart Beta 2.0 offerings, ERI Scientific Beta provides access to smart factor indices, which give exposure to risk factors that are well rewarded over the long term while at the same time diversifying away unrewarded specific risks. By combining these smart factor indices, one can design very high performance passive investment solutions.

- **Scientific Beta Analytics**

Scientific Beta Analytics are detailed analytics and exhaustive information on its smart beta indices to allow investors to evaluate the advanced beta strategies in terms of risk and performance. The analytics capabilities include risk and performance assessments, factor and sector attribution, and relative risk assessment. Scientific Beta Analytics also allow the liquidity, turnover and diversification quality of the indices offered to be analysed. In the same way, analytics provide an evaluation of the probability of out-of-sample outperformance of the various strategies present on the platform.

- **Scientific Beta Fully-Customised Benchmarks and Smart Beta Solutions** is a service proposed by ERI Scientific Beta, and its partners, in the context of an advisory relationship for the construction and implementation of benchmarks specially designed to meet the specific objectives and constraints of investors and asset managers. This service notably offers the possibility of determining specific combinations of factors, considering optimal combinations of smart beta strategies, defining a stock universe specific to the investor, and taking account of specific risk constraints during the benchmark construction process.

With a concern to provide worldwide client servicing, ERI Scientific Beta is present in Boston, London, Nice, Singapore and Tokyo. As of June 30, 2018, the Scientific Beta indices corresponded to USD 34bn in assets under replication. ERI Scientific Beta has a dedicated team of 45 people who cover not only client support from Nice, Singapore and Boston, but also the development, production and promotion of its index offering. ERI Scientific Beta signed the United Nations-supported Principles for Responsible Investment (PRI) on September 27, 2016.