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Investment managers need in-house research to mitigate ratings flaws and tap $50T ESG boom

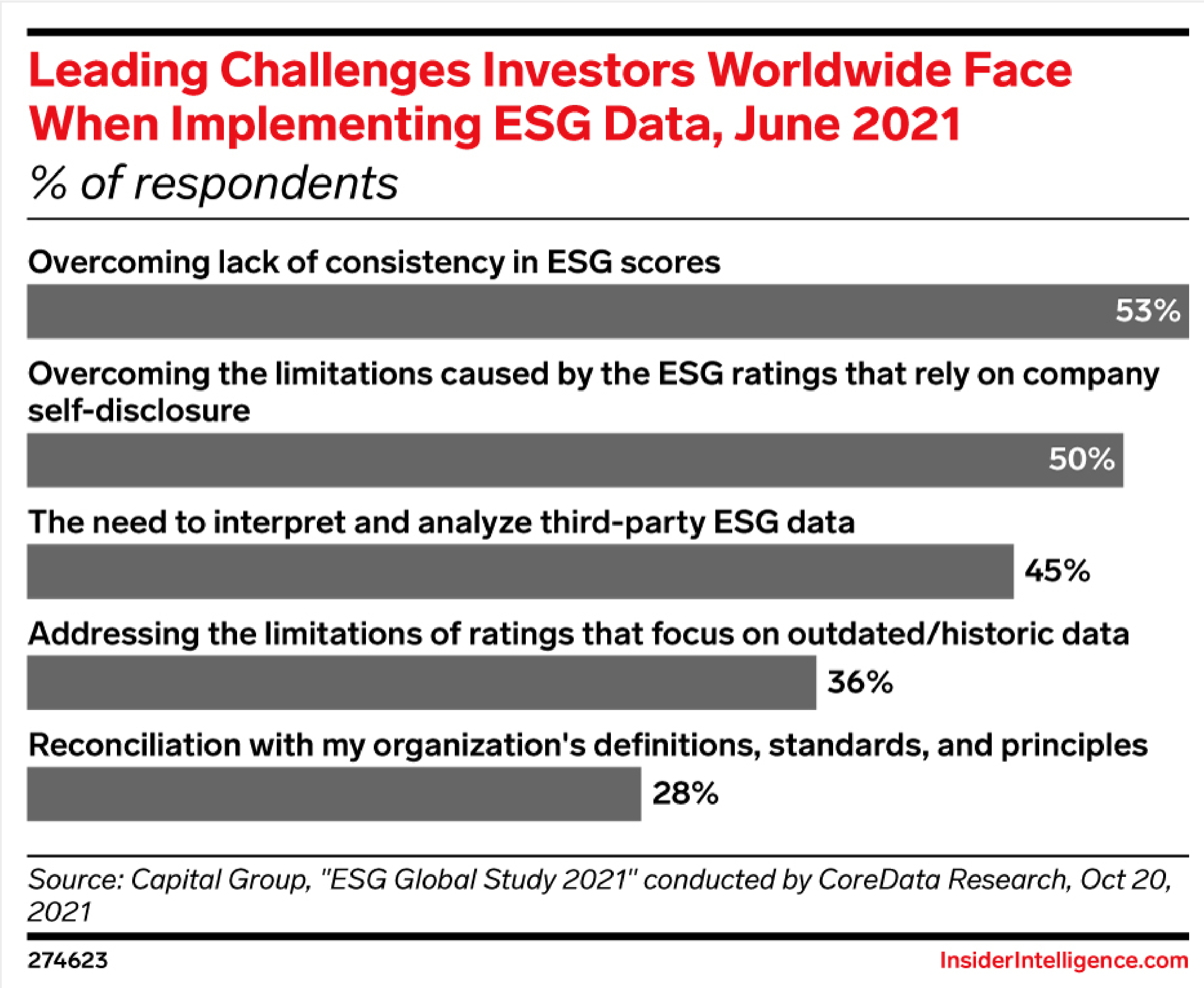
Article

The news: Environmental, social, and governance (ESG) ratings lack consistency and are updated too slowly to be useful for fund managers, according to a Goldman Sachs division.

Lack of ESG clarity: The ESG ratings industry has grown exponentially in recent years as fund managers utilize third-party data for sustainable investment research. But ratings are marred by "huge subjectivity that goes into how you can determine the quality of ESG practice," Goldman Sachs Asset Management's Luke Barrs told Bloomberg.

In the absence of globally agreed-upon standards for ESG definitions, different providers use differing methodologies to assess companies' scores, generating contrasting results. And the patchiness of ESG data means that the largest investment managers are forced to use two to five providers each, per EY research.

Flaws in the ratings mean wealth and asset managers need to also carry out their own research to mitigate the inconsistency risk from third party sources.



Our take: Surging client demand will continue driving ESG growth, with total **assets under management (AUM) forecast to exceed $50 trillion** by 2025, according to Bloomberg Intelligence. But a lack of quality, public ESG data threatens investment managers' ability to offer accurate products and might see them run into hot water with regulators.

Insider Intelligence's new report: **"The Rise of ESG Investing:** How Investment Managers Can Seize a $50 Trillion AUM Opportunity" highlights how ESG fund managers can lay out strategies to seize the huge growth opportunity available to them by both adopting internal ESG definitions and harnessing AI-powered technologies to generate better data:

- Investment managers should aim to adopt an internal taxonomy based on those developed by respected international bodies, such as the EU's green taxonomy.
- They can also look to tap AI-powered technologies to generate quality ESG data. This could include satellite imagery for monitoring emissions or using analytics to collect information from millions of media sources. Investment managers can then offer ESG products that align with each client's unique preferences and can avoid regulatory action.
- A centralized data repository and stronger analytical tools should also be prioritized to aid with interpreting the disparate sources of ESG data.

Want to read more about how investment managers can seize a $50 trillion opportunity? Click here to read our report for a deeper dive into why investment managers need a strong ESG offering and what's at stake for those that fail to overcome the ESG data challenge.