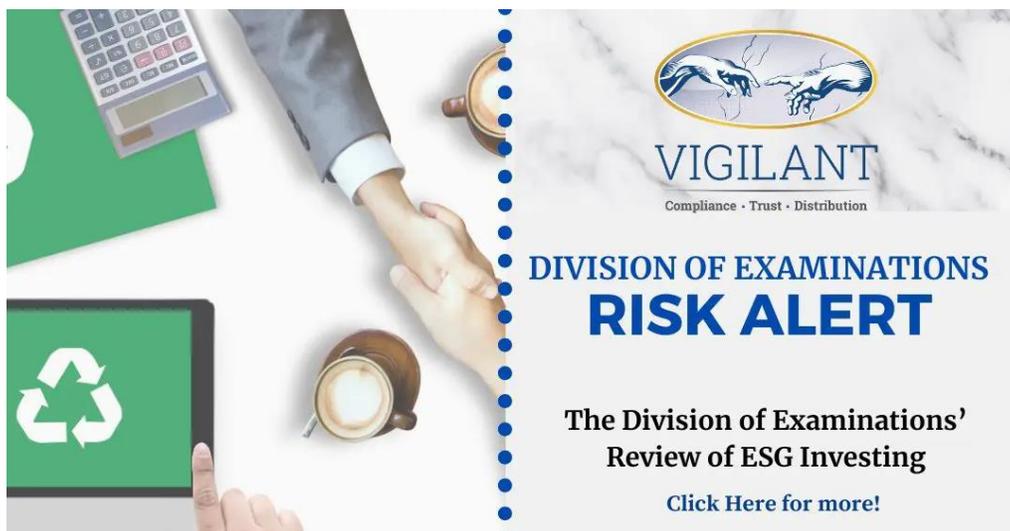




EXAMS PROVIDES A RISK ALERT ON THEIR REVIEW OF ESG INVESTING



On April 9th, 2021 the Division of Examinations (EXAMS) released a Risk Alert on their Review of ESG Investing.

Recently, there has been increasing investor demand for investment products and financial services that incorporate ESG. EXAMS felt that it would be important to release a Risk Alert that observed investment advisers, registered investment companies, and private funds that are offering ESG products and services. This provides more clarity around what practices are best to follow and vice versa.

The Division of Examinations focuses on 3 key areas while conducting a review surrounding ESG Investing. The areas included Portfolio Management, Performance Advertising and Marketing, and Compliance Programs.



Those 3 key focuses helped align potentially misleading ESG Investing Processes and Representations, as well as practices firms did that were clear and practical.

Below are 6 observations found that were misleading:

1. Portfolio management practices were inconsistent about ESG approaches.
 - When EXAMS did their observations, they found that the portfolio management practices were different from client disclosures in required disclosure documents and other client documents.
2. Controls were inadequate to maintain, monitor, and update clients' ESG-related investing guidelines, mandates, and restrictions.
 - It was found that there were weaknesses in policies and procedures governing implementation and monitoring of the advisers funds' or clients' ESG-related directives. Additionally, no controls around any negative screenings, and client preferences to favor certain industries or issuers were all inadequate controls discovered.
3. Proxy voting may have been inconsistent with advisers' stated approaches.
 - There were inconsistencies with ESG-related proxy proposals that internal guidelines did not provide case-by-case analysis even though they said that they did.
4. They found potentially misleading claims regarding ESG approaches.
 - When reviewing ESG marketing materials it was found that there were not any material facts disclosed around the significant expense reimbursement that inflated ESG-oriented funds returns.
5. There were inadequate controls to ensure that ESG-related disclosures and marketing were consistent with the firm's practices.



- There was a clear finding that there was a lack of documentation for ESG investing decisions and issuer engagement efforts.
6. Firms Compliance programs did not adequately address ESG issues.
- An important finding for the firms' Compliance Programs was that they were not adhering to the global ESG framework.

It is important to highlight Effective Practices that were found by the Division of Examinations.

Below are 3 Effective Practices to take note of for ESG Investing:

1. After observations there were simple and clear disclosures that were aligned with the firms' actual practices and tailored to firms' specific approaches.
 - One key finding was the use of a goals approach on how investments were evaluated that were primarily established under global ESG frameworks.
2. Key aspects of the firms' relevant practices were clear and the policies and procedures were evidently addressed.
 - Upon observations, specific documentation was provided to be completed at various stages of the investment process. This is very important when addressing ESG investing for investment policies and procedures.
3. Compliance personnel that were knowledgeable about the firms' specific ESG-related practices found themselves more likely to avoid any misleading claims in their ESG Marketing Materials.
 - Compliance personnel avoided misleading claims by properly testing their existing ESG-related policies, having more detailed reviews of their



public disclosures and marketing materials, and also evaluated whether the portfolio management processes properly aligned with their ESG investing approaches.

The EXAMS helped provide clear and impactful information regarding ESG Investing. To view the full SEC Risk Alert from the Division of Examinations click [HERE](#) to learn more.