

# Performance Magazine



Issue 39  
September 2022

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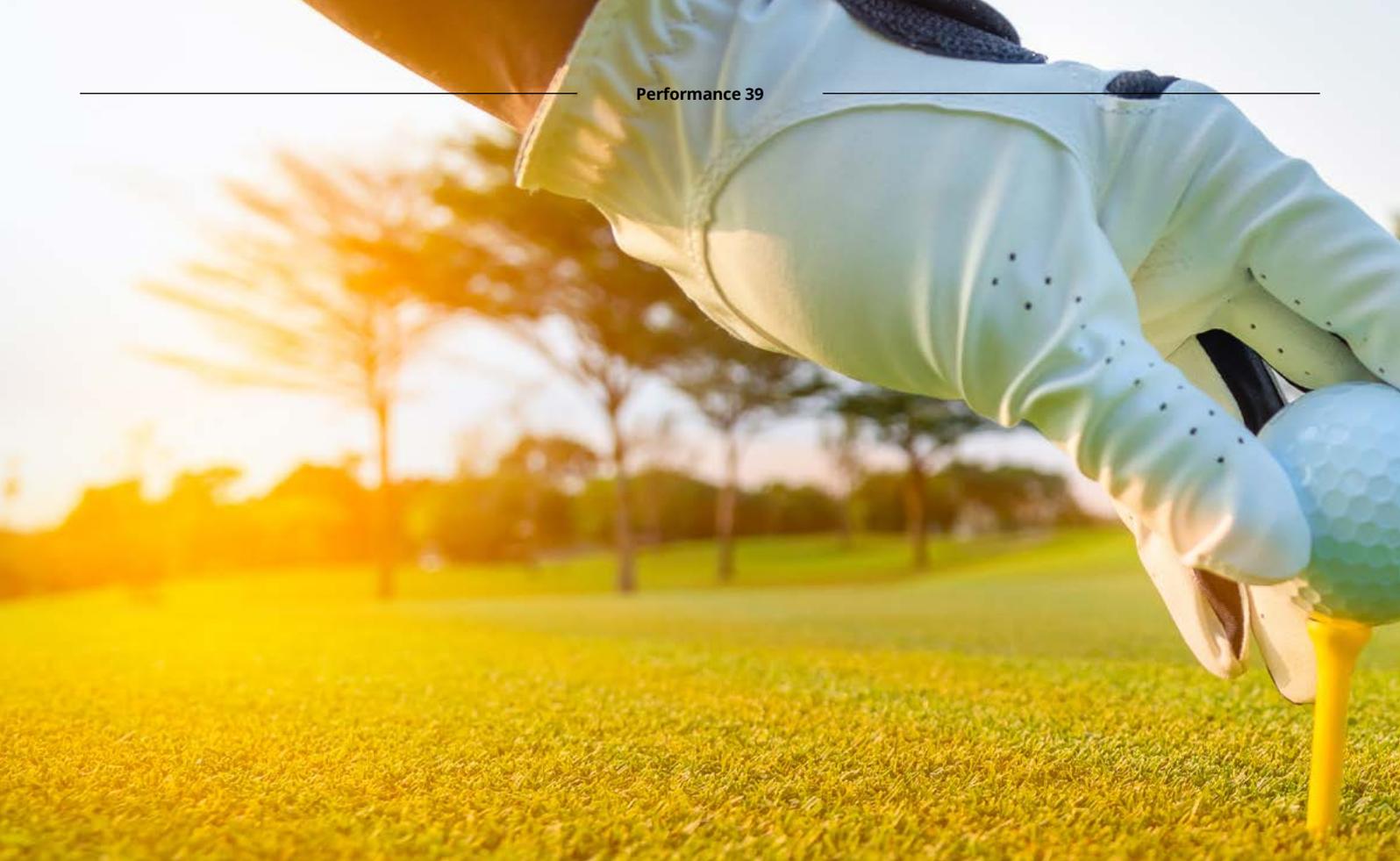
**Deloitte.**



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# FOREWORD



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Fall often marks a season of change with new focuses and emphases like those we highlight in our latest edition of *Performance*.

Creating a more sustainable and responsible Investment Management industry has our Issue 39 contributors thinking about data, communication, collaboration and compliance in securities and other asset categories.



In this issue, contributors from Deloitte's EMEA Centre for Regulatory Strategy and Deloitte UK share the risks of greenwashing in pursuit of ESG compliance. While often seen as a conduct risk, greenwashing can also be inadvertent due to unfamiliar terminology or a dearth of standardized data. With recommendations for getting ahead of this issue, asset managers may want to adapt their firm-wide risk and compliance functions.

One way to mitigate these risks could be creating more clarity around data collection, processing and reporting. E, S and G could become disparate concepts without common data throughlines vetted by modeling, regulatory frameworks and published communication to end-users and clients. Discover actions from Deloitte UK contributors to improve governance across the ESG data lifecycle.

Adapting to enhanced ESG reporting requirements requires investment firms to reevaluate organizational structure to support stewardship activities. As Deloitte UK's John Wilson shares, investment stewardship or 'active ownership' is central to demonstrating a firm's asset management capabilities.

Analyzing studies and academic research, Partner Yoan Chazal and Manager Director Servane Pfister and Consultant Pauline Nguyen from Deloitte France assess whether securities lending, an essential component of developed markets, can be a responsible and sustainable investment strategy.

Just like in the world of Formula 1, technology is upping the ante – "the need for speed" – in securities settlement as well. As shared by Kamola Rashidova,

Execution Desk Officer, Fund Dealing & Transfers, ifsam (International Fund Services & Asset Management SA), these apposite arenas share common pitfalls and successes where communication and collaboration are concerned.

The executives at Toppan Digital Language agree that clarity is key in financial communications and policies – particularly where mistranslation could impact your bottom line, compliance and reputation. President Christophe Djaouani, Chief Strategy Officer Alexandra Jarvis, and Business Consultant in Financial Services and Asset Management Jean-François Poultais share the golden rule of global financial communication and time-saving benefits of a specialized translator.

In the pursuit of more diverse leaders in investment, 100 Women in Finance is aiming to

see 30% of senior investment roles and executive committee positions held by women by 2040. Deloitte Cayman Partner Odette Samson spoke with 100WF CEO Amanda Pullinger to learn about the programs and global network (31 locations and 20,000 registered members and counting) that are helping to advance this goal.

It's clear that challenges and opportunities for responsible and sustainable investments continue to loom large for Investment Managers across the world. This issue of *Performance* presents opportunities for harnessing data, communication and collaboration to this end. We hope you enjoy this 39th edition of *Performance*.



# EDITORIAL



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We live in a volatile world. While summer brought unprecedented heatwaves and droughts, markets continued to cool. In this edition, we focus on challenges managers face in delivering ESG objectives against this backdrop, as well as securities settlement and financial communications.

With markets falling, some argue that the ESG focus is overdone. In May, the Financial Times described a “war on ‘woke capitalism.’” Some say that managers have their work cut out to rescue returns without adding further constraints. Others opine that the invasion of Ukraine provides two objections to ESG ambitions. One is national security: arms manufacturers should not be barred from sustainable or ethical portfolios, as countries need to defend themselves. A related argument concerns energy security: that the imperative to reduce dependence on Russian gas is more important than ESG, even if this means a short-term shift to coal.

Despite these pressures, regulators and society agree that investment managers must address climate change and other social issues. Regulators’ ESG demands remain intact. In late May, the Bank of England [reiterated](#) its insistence that banks and insurers must manage climate risks and warned that failure to do so could cause a 10% to 15% hit to profits. The European Central Bank [announced](#) in July that it will begin to decarbonize its corporate bond holdings this fall. Sustainability risk disclosures and regulatory technical standards from the EU’s Sustainable Finance Disclosure Regulation (SFDR) will apply from Jan 2023.

*Performance* tackles the challenges that managers face in meeting ESG objectives. Stewardship, central to sustainable finance and net-zero transition, is in the spotlight on page 40. Getting ESG data management right is both essential and difficult. A data framework is necessary to facilitate, align, and support decision-making and reporting; find a four-step approach on how to get the most out of every stage of the data lifecycle across diverse asset classes and portfolios on page 30. Evidencing ESG is essential to avoiding a charge of ‘greenwashing,’ as described on page 8. We ask whether securities lending and responsible investment strategies can be compatible on page 22.

Fabiana Fedeli, Chief Investment Officer, Equities and Multi Asset, at M&G Investments, spoke about how M&G is delivering on its climate commitments. While Fabiana acknowledges the challenges of ESG she re-affirmed M&G’s commitment to bringing clients along on page 36.

Moving to the ‘S’ in ESG, on page 26, Amanda Pullinger, CEO of 100 Women in Finance, tells us how she will achieve their aim of seeing women occupy 30% of senior investment and executive committee roles by 2040.

In volatile times, we strive to understand of challenges you face and share ideas of how to address them.

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# GreenWas

## Greenwashing risks in asset management\*

STAYING ONE STEP AHEAD

### INTRODUCTION

Greenwashing has been described as firms making “misleading or unsubstantiated claims about environmental performance” of their products or activities. It is a growing regulatory issue in the UK, EU and globally, particularly given the rocketing investor demand for sustainable products. Regulators are concerned that pressure on asset management firms to compete in this growing and profitable market could drive them to exaggerate the positive attributes of sustainable products.

However, greenwashing may also arise if investment decisions are based on non-standardized and incomplete sustainability data, or the firm’s communications are unclear about how sustainability-related terminology applies explicitly to the firm and its funds. Using overly technical language for non-financial performance in ongoing reports could also lead some end-investors, unfamiliar with new terminologies and metrics, to believe funds will have a more positive environmental impact than actually stated.

Mitigating the risk of greenwashing is a key aim of the EU Taxonomy and the Sustainable Finance Disclosure Regulation (SFDR). Asset management firms are seriously concerned about having to re-label their funds due to supervisory intervention, which may result in significant reputational risk. The industry expects further guidance from the European Commission and supervisory precedent from other national EU regulators on SFDR implementation once its level 2 regulations take effect in January 2023. Once there is sufficient supervisory precedent and regulatory examples of how categorization should work in practice, inappropriate categorization could also lead to regulatory penalties.

\*This article is an abridged version of the **report by David S, Natasha. D. S, Felix B, Isha G and James S.** It was abridged by Tiffany Yuan, Ph.D., CFA

# shing



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**When can greenwashing occur?**

Greenwashing can happen at any point of the fund and product lifecycle, which is divided into three main stages:

- 01. The pre-contractual stage
- 02. The post-investment and ongoing-reporting stage
- 03. The complaints-handling stage

The table addresses firms’ key challenges in mitigating greenwashing risk at each stage and provides relevant regulatory requirements and actions that firms can take.

|  FUND   PRODUCT LIFECYCLE |  REGULATORY REQUIREMENTS   GUIDANCE  |  ACTIONS FOR ADDRESSING KEY CHALLENGES  |
|---|---|--|
| <p><b>Pre-contractual stage</b></p>   | <p><b>Financial Conduct Authority (FCA):</b></p> <ul style="list-style-type: none"> <li>• Requires that names, objectives, documented investment strategy and holdings be consistent; and</li> <li>• Requires comprehensive information on strategies and stewardship policies.</li> </ul> <p><b>SFDR:</b></p> <ul style="list-style-type: none"> <li>• Requires disclosures on firm websites: sustainability due diligence, sustainability risk and remuneration policies; and</li> <li>• For Article 8 or 9 funds, the following disclosures are required on firm websites and pre-contractual documents: investment strategies, objectives, top holdings, due diligence, data sources and limitations to methodologies and data.</li> </ul>  | <ul style="list-style-type: none"> <li>• Obtain, analyze, and use sustainability data, which is often incomplete or infrequently available, to make investment decisions; and</li> <li>• Ensure that fund documentation and firm-wide policies provide clear and specific information in a non-technical way on the objectives and strategies of sustainable products, and whether there are data limitations and how they are being addressed.</li> </ul> |
| <p><b>Post-investment and ongoing-reporting stage</b></p>   | <p><b>FCA:</b></p> <ul style="list-style-type: none"> <li>• Suggests providing ongoing performance reports on how well a fund meets its stated objectives and any relevant information used to facilitate investment decisions; and</li> <li>• The profile of a fund’s holdings should always be consistent with its disclosed objectives.</li> </ul> <p><b>SFDR:</b></p> <ul style="list-style-type: none"> <li>• Requires periodic disclosures on how environmental and social characteristics have been promoted (for Article 8 funds) or how sustainable objectives were attained (for Article 9 funds); declarations that no significant harm of sustainable objectives has taken place (Article 9); and the fund’s top holdings and actions taken to achieve its objectives.</li> </ul> | <ul style="list-style-type: none"> <li>• Have a strategy to deal with unexpected new sustainability data on investee companies in funds from various sources, potentially affecting the fund’s objectives.</li> </ul>  |
| <p><b>Complaints-handling stage</b></p>   | <p><b>FCA’s dispute resolution: complaints sourcebook (DISP) rules require firms to:</b></p> <ul style="list-style-type: none"> <li>• Assess the subject matter of complaints fairly, consistently, and promptly;</li> <li>• Consider whether the complaint should be upheld, and whether and what redress should be provided;</li> <li>• Observe a time limit for responses, which should be fair, clear, and not misleading; and</li> <li>• Maintain complaints-handling policies.</li> </ul>   | <ul style="list-style-type: none"> <li>• Have policies and procedures in place for compliance or other relevant functions to properly investigate complaints related to greenwashing. This includes assessments against the FCA’s complaints-handling rules and determining whether compensation is required.</li> </ul>   |

## How can greenwashing risks be mitigated?

The responsibility for addressing greenwashing risk extends beyond firms' compliance and risk functions. Firm and fund boards must consider this risk when setting up firm-wide and fund specific strategies. The FCA and EU regulators' preferred approach for firms to mitigate greenwashing is to involve all relevant functions at each stage of product development and interaction with end-investors.



### PRE-CONTRACTUAL STAGE:

#### 1. Sustainability data

- Set firm-wide sustainability data policies.
- Enhance in-house capabilities to obtain, analyze and validate data;
- Avoid relying on a single data provider and compare data from different sources to identify and resolve any discrepancies; and
- Identify and disclose data limitations to control functions.
- In conjunction with portfolio managers, undertake appropriate due diligence on third-party sustainability data and ratings providers;
- Review sustainability data policies periodically and ensure data disclosures are up to date when data availability changes; and
- Conduct periodic monitoring on fund documentation to assess whether data limitations have been made clear.

#### 2. Clear communication

##### a. Firm-wide information

- Firm boards to sign off on firm-wide sustainability and engagement policies. This requires careful consideration of the tone used in such documents, the resources available for the sustainable fund offering, and the firm's overall stance on sustainability.

##### b. Fund-specific documents and disclosures

- Ensure the fund strategies are aligned with firm-wide ones.
- Ensure staff are trained on the prescribed technical thresholds under each of the FCA's labels (when finalized);
- Ensure sustainability-related disclosures can be easily understood by less sophisticated investors;
- Ensure objectives and strategies are worded in an accessible way; and
- Include data limitation disclaimers and issues that may hinder the fund from achieving the environmental impact promise.
- Ensure documents are written in a non-technical manner and that there is sound evidence to support any claims regarding the fund's non-financial objectives and associated financial returns;
- Flag any risks of exaggerated language or not aligned with the firm's overall tone or approach to sustainability; and
- Perform a spot check that the information in prospectuses is consistent with that on the firm's website and in firm-wide policies.

### 3. Investment strategy

- Consider the firm-wide strategy for sustainable investing, which must be made clear in firm-wide policies; and
  - Ensure the firm-wide strategy is incorporated into the fund-specific strategies.
- Exclusions/negative screening**
- Clarify whether exclusion is based solely on the company's activities or includes other entities in its supply chain.
- Best-in-class investing**
- Clarify the limitations of using ESG ratings for investment decision-making.
- Thematic and impact investing**
- Specify funds' objectives and time horizon to achieve these, and events that these are contingent upon.
- Monitor whether holdings and allocation percentages in funds are compatible with the fund's stated objectives; and
  - Monitor whether holdings and strategies are consistent with the firm-wide sustainable investment strategy set by boards.

### 4. Third-party distribution

- Approve the overall strategy and parameters for how the firm works with third-party distributors; and
  - Set the firm's overall risk appetite for engaging with third parties, e.g., the level of due diligence on third parties.
- Provide additional training to the IFAs, e.g., where new types of investment strategies are concerned or where there are uncertainties around non-financial performance and new sustainable investing terminology.
- Review periodically whether up-to-date fund-specific documentation is made available to third parties.

## POST-INVESTMENT AND ONGOING-REPORTING STAGE:

### 1. Sustainability data

- Consider whether to employ a strategy of third-party assurance on new sustainability data that emerges unexpectedly and could affect funds' objectives.
  - Scan and identify information that emerges from a variety of different sources about the investee companies, and have the requisite relationships with data providers that can promptly update them; and
  - Assess proactively whether any divestment or engagement must take place if new sustainability data emerges that affects funds' ability to perform on sustainable objectives.
- Review communications to ensure investors are informed of any changes to holdings in a timely manner;
  - Check whether any decisions regarding changes in investments have been explained clearly and that no exaggerated claims have been made regarding these changes; and
  - Undertake due diligence on the sources where new data has been received.

### 2. Ongoing reporting

- Ensure a consistent strategy about which non-financial metrics must be used and how they must be displayed.
  - Determine the right metrics to measure non-financial performance and ensure the metrics are understandable;
  - Inform intermediaries and end-investors about changes in strategies and objectives in sustainable funds proactively; and
  - Explain why non-financial performance is falling short of expectations or certain sustainability objectives, and what is being done to improve it.
- Conduct periodic formal reviews to assess whether ongoing reporting documents are reporting performance accurately;
  - Carry out spot checks on performance data included in ongoing reporting documents against internal performance data; and
  - Assess whether claims, strategies and ongoing reporting for funds are consistent.

**COMPLAINTS-HANDLING STAGE:**

- **Ensure they see management information (MI) on the number of greenwashing complaints being received; and**
- Undertake a root cause analysis and, if need be, review existing firm-wide
- Consider whether the approach or investment strategies can be amended, or whether the expected time horizon for achieving certain sustainability objectives must be amended, to prevent further instances of greenwashing complaints.
- Compliance, risk, or other relevant departments must ensure they are trained in sustainability investing, sustainability data and related terminology and analysis, so that they can determine whether greenwashing may have occurred;
- Investigate whether communication in fund documentation and websites was clear, appropriate and not exaggerated, and whether the sustainability data on which investment decisions were based had serious deficiencies and whether they were disclosed;
- Ensure there is a robust analysis of whether the situation is within the definition of an FCA complaint (i.e., financial loss, material distress or material inconvenience), on what grounds, and whether financial compensation is required; and
- Handle deliberate greenwashing as any other instance of serious misconduct.

Firms will benefit from strong governance structures and oversight from boards, senior managers and the control functions when identifying and managing any conflicts between staying competitive and providing accurate information to end-investors. They should also place themselves in the shoes of end-investors and consider whether their claims are clear, fair and not misleading, as a consumer-centric firm culture can help mitigate greenwashing risk.

**CONCLUSION**

- While greenwashing is conventionally seen as an act of deliberate misconduct, it can also inadvertently arise from incomplete data or new and unfamiliar terminology. Firms must incorporate controls against this into their overall risk management frameworks.
- Essential to mitigating greenwashing risk is thorough fund documentation that draws explicit links between fund names, objectives and strategies, backed by clearly written and comprehensive firm-wide policies.
- Collaboration between portfolio managers, marketing and sales functions, and compliance and risk functions is a must to ensure any misalignment between objectives and strategies, and the potential for confusion and exaggeration, are identified and addressed promptly.
- Firm boards must consider the risk of greenwashing when setting firm-wide policies around sustainable investing.

**TO THE POINT**

- Greenwashing is a key regulatory concern, so asset management firms must proactively manage this risk.
- While greenwashing is conventionally seen as a conduct risk, i.e., the act of deliberately mis-selling or misrepresenting a product's green credentials, it can be inadvertent due to non-standardized sustainability data and the unfamiliar terminology of the sustainable-investing landscape.
- Incomplete sustainability data will likely remain a key challenge for some time; therefore, clear disclosures on limitations and the actions taken to address them can improve clarity for end-investors.
- The responsibility for addressing this risk extends well beyond firms' compliance and risk functions, with firm and fund boards needing to set firm-wide and fund-specific strategies.



# Why the current settlement world is like Formula 1

POOR COMMUNICATION HAMPERS SPEED



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## INTRODUCTION

Throughout history, humankind has always wanted to achieve everything as soon as possible, and today's world is no exception. The need for speed is dominating our society, driven by revolutionary technology heightening the pace of our lives.

But while transmission speed is a crucial element of the settlement process, it is ineffectual without proper automatization and accuracy of the securely transmitted data. In this article, I take a closer look at the world of securities settlement by drawing parallels with Formula 1, the world's fastest sport, to help explain how clear and accurate communication between participants is essential to speedy performance.

Working at International Fund Services and Asset Management (ifsam), a B2B fund platform for institutional investors, has granted me an inside view of the settlement world at both a macro and micro level. Institutional clients are seeking an intermediary or custodian that delivers the best service and tools for a timely qualitative transfer execution. And intermediaries are constantly chasing the best technologies and know-how to deliver an automated and scalable service at the highest technological level.

This situation is similar to a Formula 1 racing driver searching for a team that best shares the driver's values to ensure a successful collaboration. To make this possible, teams focus on building the best car that complies with the Fédération Internationale de l'Automobile's (FIA) regulations. They invest in cutting-edge equipment and

choose the very best engineers and crew members. However, despite all this effort, teams can still struggle to realize their potential.

Similarly, despite regulations, directives and corresponding financial regulators in all markets, intermediaries still face delays in order execution, which in its turn influences the company's entire service chain.

Last year, ifsam participated in a global transfer survey by Calastone, which highlighted the pressure points causing delays in the industry. The main challenges of today's transfer process are the mandatory use of original stock transfer forms, data input and rekey errors, forms lost in the mail with data necessary to place and execute the transfer, and signature requirements.

From personal experience, the biggest delay is due to miscommunications in the

first step—the exchange of standard settlement instructions (SSI) between parties to initiate the transfer. The exchange is made via email in a text file, PDF or fax attachment. As the parties involved use different formats to process information and different custody structures for their securities, the delivered settlement chain may differ—the registration could be made directly with transfer agencies or clearinghouses or clearing via transfer agencies or external markets, or the SSI could use a name and address or an account number and name.

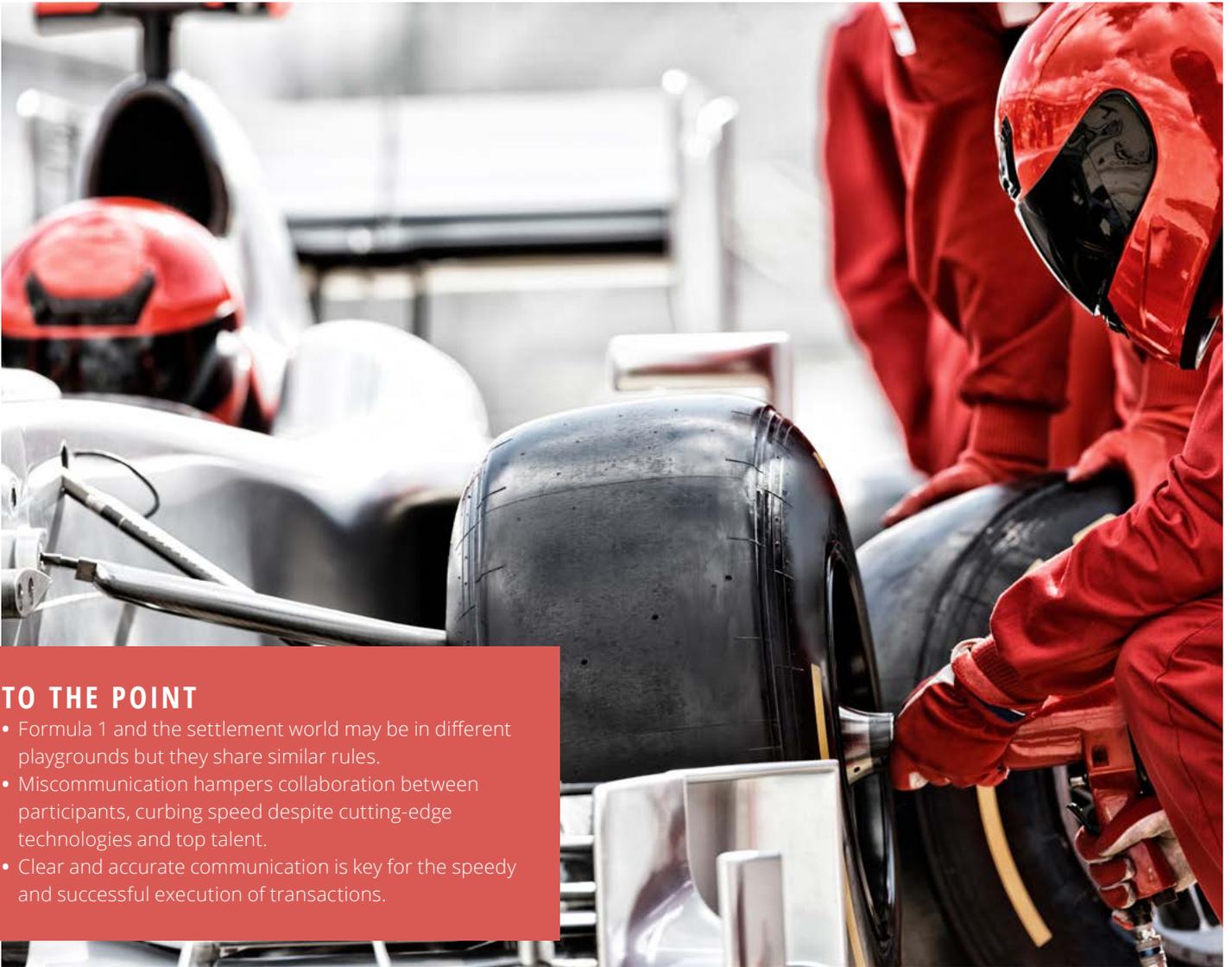
This can lead to clients submitting an instruction with a partial SSI to the custodian, which is used to process the transfer. Several days later, the transfer agent rejects the transfer or requests an amendment due to incomplete information. The clients are then back at square one and

must initiate the process from the beginning.

During my recent Grand Prix (GP) experience in Monaco, I could see parallels with the settlement business. In the Formula 1 world, despite skilled racers, fast cars, defined constituents and enforced regulations, even the best teams can fail to reach the podium due to human error hampering communication.

For example, take the recent GP races in Monaco and Montreal. Despite Ferrari having one of the season's most competitive cars, Charles Leclerc's good qualifying results and Carlos Sainz's steady performance, the team performed below expectations at Monaco. Ferrari's double pit stop blunder was due to Sainz and Leclerc calling for a change of tires in quick succession, which caused the latter to lose his long-hoped-for podium spot. And, due to a similar





## TO THE POINT

- Formula 1 and the settlement world may be in different playgrounds but they share similar rules.
- Miscommunication hampers collaboration between participants, curbing speed despite cutting-edge technologies and top talent.
- Clear and accurate communication is key for the speedy and successful execution of transactions.

communication issue in the McLaren team, the Montreal GP also saw a disastrous double-stack pitstop that cost both Daniel Ricciardo and Lando Norris their top spots.

Double pit stops for Ferrari in Monaco and McLaren in Montreal meant the teams paid the highest price: time. Despite the best conditions, the delay influenced the entire race, performance and points gained. Frustration and disappointment reigned—if the information exchange had been smoother, the race (or, in our case, the transfer) would have run without abruptness and delays, securing the best execution time.

Has the delay already happened? Yes. If it was the first portfolio migration, has the underlying client's first impression already been ruined? Yes. If trading was planned after a successfully executed stock transfer, will it take place? No. Will this occur in the future? Most probably yes. Without standardized and systematic ways or tools to communicate between parties, high-value and high-quality offerings will not guarantee an efficient and fast result. Besides defining the strategy, investing in the best technology and choosing the most qualified professionals, the industry should focus on the most invisible layer

on a global scale that binds everything together—communication. This is why ifsam decided to build an intermediary for automatic exchange of SSI between parties, known as FreeDel.

## CONCLUSION

- While speed is important in our lives, it relies on the synergy of all elements and parties involved.
- To nurture this speed, we must stay vigilant by defining and improving our weak spots.
- Miscommunication during the SSI exchange is a major issue that hampers the speed and efficiency of transfers, affecting the entire settlement chain.
- Tools that standardize the exchange of information and aid communication between parties are essential for speedy, delay-free performance.

# The golden rule of global financial communication

LANGUAGE REALLY MATTERS



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## INTRODUCTION

We often joke about the prevalence of jargon in the financial services industry, but the importance of clear communication around technical concepts and terms cannot be stressed enough. Each term, description and acronym carries meaning that may be codified in law or in accepted local usage. And in financial services, as in any highly regulated sector, language really matters.

And here is the challenge: the financial services industry is generating more content than ever before – and at ever-faster rates. Industry participants must communicate with many stakeholders, on different topics, across new channels and in an expanding variety of formats. At a minimum, it is crucial to communicate accurately, clearly and in a timely manner. The consequences of errors and delays can be severe. Furthermore, as industry participants expand globally, these communication challenges, and their associated risks, multiply.

As experts in the translation process for the financial services industry, we have highlighted four areas of focus that any organization should consider when producing multilingual communications:

- First, the bedrock of any translation strategy is **quality**, a catch-all term which includes accuracy, clarity, and ease of understanding.
- Second, is **reputation**, which goes beyond the basics of quality into consistency, brand voice and differentiation.
- Third is **time-to-market**, which implies an optimization of the translation process, enabled by technology.
- And fourth is **content security** during the translation process.

Focusing on all four areas can significantly reduce the risks associated with producing multilingual content.

## Quality

Multilingual communication – which usually involves the process of translation – may not seem to top the list of risks that a financial institution faces. However, failure to provide accurate information, on time, in regulated documents – such as prospectuses or fund reports – in all mandated languages, could have serious consequences. Regulatory documents that have been mistranslated can cause confusion and risk non-compliance. Additionally, any localized, customer-facing information that is unclear, inaccurate, or otherwise sub-standard, could have a negative impact on a company's reputation and client retention in that region and beyond. Naturally, the first area to focus on is **quality**.

Financial firms should not underestimate the extent to which accurate translation relies on expert industry knowledge. In fact, it relies on expert sub-sector, in-market knowledge. It is not just the literal translation of the words that matter, but their technical and regulatory meanings. Let's look at a couple of examples.

An error in the translation of an EU regulation by the Danish Financial Supervisory Authority (DFSA) recently underlined the importance of expert review in the translation process. The DFSA received several inquiries concerning a reference to "financial advisers" in the Article 2(11(d)) of the Disclosure Regulation. This could have been interpreted as individuals operating as Independent Financial Advisers. In fact, the original text, and therefore the entities in scope of the

regulation, was "Investment firms [...] providing [...] investment advice," a distinct entity type authorized under MiFID II.

A second example relates to the translation and a detailed understanding of financial products. When the US Foreign Account Tax Compliance Act (FATCA) came into law, it was assumed that the French "Epargne Salariale" schemes (a common type of employee savings scheme) were captured as equivalents to the US 401k defined benefit pension schemes. However, the underlying mechanisms of the Epargne Salariale had nothing in common with the original text or objectives of the Act.

Once an error has been published by a regulatory body, it can then be quite difficult for the businesses and trade associations who must comply with those regulations to know what to do and how to interpret them. Should they comply with the regulation as it is written, or as it was intended? What risks do they run while the error is queried?

Clearly, when it comes to specific roles, products or policies across borders, there is a high risk of misunderstanding. This is something we have had to deal with on many occasions, and the consequences can be significant. These challenges underline the fact that translation of high-risk, business-critical content should only be handled by specialist language service providers whose translators and reviewers are experts in their field.

## Reputation

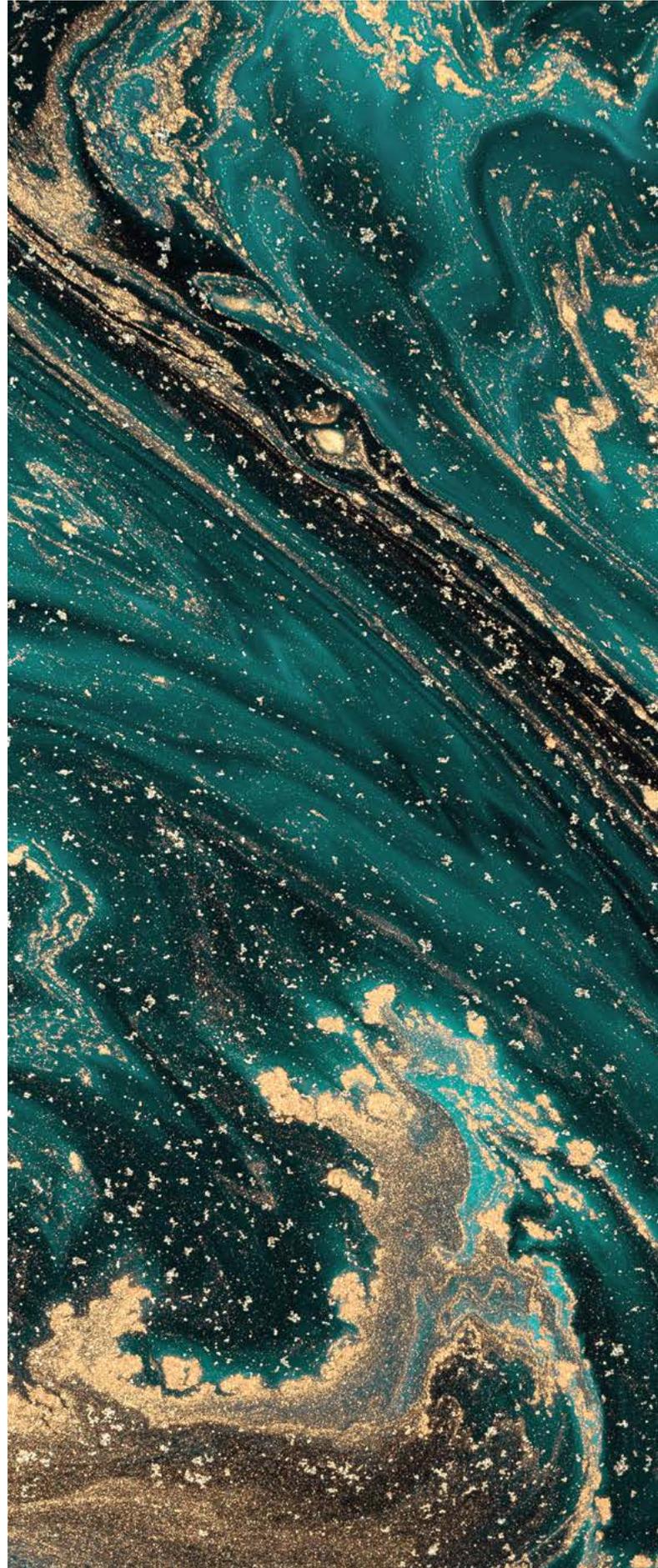
The second area to consider is the impact of translation on your organization's **reputation**, particularly for objectives that go beyond the basic requirement of accurate translation. Consider the following examples. Consistency of terminology is critical across all output and channels. We can reduce the risk of inconsistent language by using databases, or "linguistic assets," that support quality control in the translation process. Document formatting also needs to be adapted for the local market. Here, both specialist tools and human insights are used to return translated documents in the correct format to avoid delays in publication.

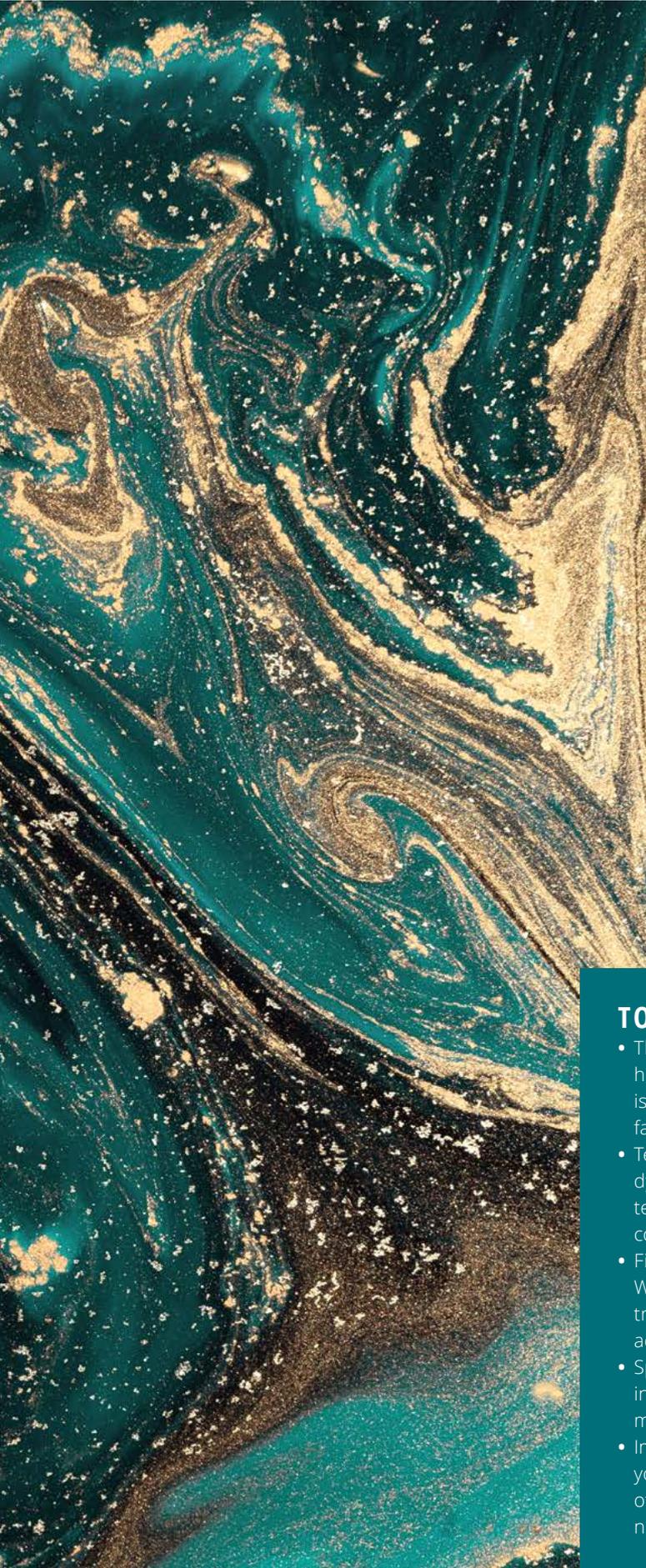
In terms of a company's brand reputation, it is also worth considering that a significant proportion of content created by financial services organizations is less formal – think consumer communications, marketing campaigns, or website content. In many cases, the translation of this content needs a different approach and a skillset closer to copywriting. Yet both the formal and informal content need to comfortably sit side by side, making it ideal to have translators of both types of content on the same collaborative team.

## Time-to-market

The third area to address is **time-to-market**. Content processes today are increasingly agile with incredibly short deadlines. As a result, translation turnaround times are a major pressure point. Consider an IPO prospectus that must be produced simultaneously in two languages. Not only is the terminology highly specialized, but the document itself is the product of many authors and is in a constant state of revision, racing towards a hard deadline. While hard to imagine, it is not uncommon that an IPO could be late simply because of a document's delayed translation.

To shorten delivery times as much as possible, translation processes must be optimized within the wider content management process. And as previously mentioned, while human expertise remains vital to the delivery of business-critical content and translations, specialist language technologies should also be deployed to support the quality objectives, simultaneously enabling output at speed and at scale. Additionally, it is best if these tools are further tailored to the finance industry. The most effective end-to-end technology solutions should offer direct integration into content management systems, automated workflows, computer-assisted translation tools and quality monitoring. These systems play a crucial role in the content risk-management process and are easily audited.





## Security

Last, but certainly not least, is **content security**, which is an absolute imperative for both personal data and a firm's proprietary information. If confidential data for any financial services business is exposed during the translation process it could lead to irreparable consequences. Therefore, it is no wonder that companies in the finance sector sometimes use their own in-house teams to translate content to manage and mitigate the risks of data loss. Yet the difficulty with this in-house approach is that it can be expensive and inefficient, particularly if operating across many different markets. As an alternative, external translation vendors are appropriately held to a high standard for information security; they should demonstrate information security best practice as well as deploy robust, state-of-the-art technologies that are both secure and industry-compliant.

## CONCLUSION

In summary, multilingual communications in any financial services organization are complex and should always be managed for risk. With a focus on the key areas of quality, reputation, time-to-market and content security, organizations should work with specialist language service providers who are experts in this highly regulated sector.

## TO THE POINT

- The translation of financial communications and policies presents a huge challenge for companies and policymakers in an industry that is constantly evolving. Communicating accurately and in a timely fashion are priorities.
- Terminology related to specialized processes, procedures, and dynamics of the industry is complex. Mistranslations of key terminology may have serious consequences in terms of cost, compliance and reputation.
- Financial regulations and policies differ from country to country. While financial reporting in the EU is standardized through IFRS, the translation of financial statements in other jurisdictions require an additional level of expertise.
- Specialist translators, with a deep working knowledge of the finance industry, are key assets in improving the quality and accuracy of multilingual communications.
- Improved accuracy, confidentiality, and less pressure to reformat your structured documents represent some of the core benefits of using an industry specialized translator, allowing you to focus on nurturing and maintaining effective global relationships.

# Can securities lending and responsible investment strategies be compatible?

AN OVERVIEW OF PUBLIC STUDIES AND ACADEMIC RESEARCH

## INTRODUCTION

According to statistics from Datalend, the global securities lending industry generated US\$9.28 billion in revenue for lenders in 2021. This represents a 21.2% increase from the US\$7.66 billion in 2020 and a 7.2% increase over the US\$8.66 billion in 2019, making 2021 the biggest year for lending revenue since 2018.

It is now essential for fund managers to properly manage environmental, social and governance (ESG) topics, given their increasing link to significant outperformance and their regulations becoming increasingly prescriptive. Meanwhile, driven by rising international interest in responsible investment approaches, regulators and industry stakeholders have been closely involved in this topic.

With the entire asset management industry and its investors focusing on responsible investment and sustainability, securities lending is also coming under scrutiny, due to being seen as incompatible with ESG investments. The fundamental question is to what extent securities lending impacts long-term sustainability and shareholder commitment. Therefore, this article aims to summarize the view of public studies and academic research on the securities lending environment and its compatibility with sustainable finance.



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It is commonly accepted in financial academic literature that securities lending plays an essential role in maintaining healthy and well-functioning capital markets while providing a myriad of benefits to asset owners. However, as securities lending is often linked with short selling, its use by funds promoting an ESG approach or responsible investment can be questioned.

On the one hand, academic writers view securities lending as a secure way for lenders to earn incremental revenues and bolster their performance while also a relevant tool to satisfy borrowers' daily operations. In addition, some academic papers, including those of the International Organization of Securities Commissions (IOSCO), highlight that

securities lending contributes to effective liquidity and price discovery in financial markets, reduces volatility and costs for end-investors, and is not detrimental to long-term value.

On the other hand, investors are increasingly looking at integrating sustainability into their portfolio strategies and applying responsible approaches. However, while incorporating responsible criteria in investment strategies is becoming mainstream, these approaches seem to ban the use of securities lending.

Many working papers from global academic and industry perspectives demonstrate that securities lending enhances market efficiency and sustainability. These sources support the argument that the lack of securities

lending damages market quality, and that its use significantly enhances the price discovery process, improves market liquidity, and reduces spreads. According to these perspectives, securities lending is the grease that oils global market efficiency.

In addition, securities lending and short selling support market efficiency by incorporating negative information into market prices more quickly, preventing disruptive price bubbles. Empirical findings have also shown that constraining securities lending and short selling reduces liquidity. In other words, this regulated practice contributes to capital market efficiency, by enhancing market liquidity and stability while generating additional returns for end-investors.

Moreover, the European sustainable and responsible investment (SRI) labels—which aim to guarantee the quality of responsible investment—authorize the use of securities lending. For example, important SRI labels (such as the French and Belgian) clarify the specific conditions and guidelines for their acceptable use in their frame of reference. These SRI label requirements result in the close supervision and selection of counterparties, monitoring of borrowers' motivations, and repatriation of securities on

loan before the exercising of voting rights to maintain strong shareholder engagement.

In addition, the Sustainable Finance Disclosures Regulation (SFDR), in force since March 2021—the latest regulatory step on the topic and a major part of the EU Action Plan for sustainable growth regulation—does not provide any specific recommendations regarding securities lending activities. However, as products with a sustainable investment objective (under article 9 of the SFDR) should invest almost 100% of their assets in sustainable assets, using securities lending for these funds implies setting up specific rules to ensure the sustainability of borrowed assets.

Public studies support the view that, by creating the right ecosystem for their use, responsible investors using an SRI label can effectively continue to engage with companies while actively lending their assets. In conclusion, an analysis of the extensive literature available as well as regulatory standards shows no evidence suggesting securities lending could detract from sustainable investment strategies.

Public documents show that market participants have adopted responsible behaviors for these operations and are



committed to implementing a secure framework for developing their securities lending activities.

For example, Stuart Jones, PASLA's chairman, said: "There are three core topics that normally come up: proxy voting, collateral and transparency [...] These cover whether and how asset owners should have their shares returned to them to allow them to vote at annual general meetings (AGMs), what collateral they were given in exchange for the shares—in case these did not meet asset owners' ESG requirements—and whether borrowers of shares could lend them on further without informing the owner."

Market participants have designed this framework with precise procedures on investment stewardship, shareholder engagement, and ethical conduct regarding transactions and client interactions while considering the main purpose of optimizing client returns and protection.

For example, in a Deloitte survey of 71 responsible funds managed by 25 major asset managers, 90% are allowing securities lending for their funds according to their prospectuses on all or part of

the scope. However, when the prospectus allows securities lending, only 61% seem to have actually used securities lending in 2020, according to the fund's annual report. Most of the time, these asset managers define for their securities lending activity (i) a maximum amount, i.e., securities lending cannot exceed a specific weight of portfolio net assets and (ii) a maximum number of days for the loan contract (without specifying quantitative norms).

Furthermore, some market participants set up specific rules, such as the ability to recall or restrict loans on particular securities to ensure shareholders can vote at AGMs, or the meticulous assessment of counterparties before the loan contract is issued, which incorporates corporate social responsibility and SRI considerations. Finally, another core issue for asset managers is transparency to their investors. It is seemingly crucial for market participants to maintain smooth communication, guarantee the traceability of trade flows, and ensure that the exchange of information during the securities lending transaction remains fluid (especially for responsible fund managers).

"Some market participants set up specific rules, such as the ability to recall or restrict loans on particular securities to ensure shareholders can vote at AGMs, or the meticulous assessment of counterparties before the loan contract is issued, which incorporates corporate social responsibility and SRI considerations"

“Using securities lending for article 9 SFDR funds implies setting up specific rules to ensure the sustainability of borrowed assets.”

By implementing good initiatives and procedures regarding stewardship and engagement, counterparty selection and transparency, and a secure legal ecosystem for transactions, market participants should be able to carry out securities lending activities through a sustainability lens.

## CONCLUSION

Securities lending improves market efficiency by enhancing liquidity and price discovery. A holistic view of academic studies shows that restrictions on securities lending can lead to higher volatility and overpricing. Therefore, securities lending acts as the grease that reduces spreads and volatility and boosts market liquidity. At a macro level, banning securities lending could be detrimental to market stability. Consequently, securities lending helps to stabilize markets and increase the global efficiency of capital markets.

Literature indicates that securities lending is a mature and robust market activity that has persisted through macroeconomic events such as credit shocks, the sovereign bond crisis and, more recently, the COVID-19 pandemic. Securities lending is now highly regulated and transparent and will continue to be with future sustainable regulations like the SFDR and standards like the French L'investissement Socialement Responsable (ISR) label. Designing resilient securities lending markets requires all stakeholders to contribute, including lenders, intermediaries and regulators.

According to literature and public studies, and considering some requirements of labels or regulations, securities lending and responsible investing can be compatible and develop in harmony. Securities lending and responsible investing can complement each other when securities lending programs incorporate sustainable considerations with specific processes and controls. Particularly, when securities lending activities are correctly designed, they develop a sustainability path for securities lending—with strong engagement in transparency and long-termism—while securing the protection of end investors.

## TO THE POINT

- Securities lending is an essential component of developed financial markets.
- There is currently no evidence suggesting that securities lending could detract from sustainable investment strategies.
- Label ISR standards do not prohibit securities lending if realized under required sustainable criteria.
- Market participants often secure their securities lending activity by incorporating best practices to ensure they comply with responsible investment standards.

### Citations:

Deloitte Conseil France, *Public studies, academic views, regulatory texts and good practices*, September 2021

<https://www2.deloitte.com/content/dam/Deloitte/fr/Documents/risk/Publications/deloitte-securities-lending-and-responsible-investment.pdf>

# 100 Women in Finance

IN CONVERSATION WITH CEO AMANDA PULLINGER



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## INTRODUCTION

100 Women in Finance (100WF) is a global network of finance and alternative investment professionals working together to empower women at every stage of their careers. Through educational, impact and peer engagement initiatives, 100WF's more than 20,000 registered members make connections and create opportunities that advance careers and strengthen the financial services industry.

During a visit to Grand Cayman to celebrate 100WF Cayman's 10th anniversary, Odette Samson, Deloitte Audit Partner and 100WF Global Advisory Council member, spoke with Amanda Pullinger, the Chief Executive Officer (CEO) of 100WF, to discuss 100WF's mission and challenges, and the best practices she has learned during her career supporting women.



## Amanda Pullinger, Chief Executive Officer, 100 Women in Finance

As CEO of 100 Women in Finance, Ms. Pullinger leads a staff team and provides direction to 500 volunteer practitioners globally. The organization, which has registered members in 28 locations, is focused on empowering women in the finance industry and inspiring the next generation of pre-career young women.

Ms. Pullinger is a former principal of Aquamarine Capital Management, where she was responsible for managing marketing, investor relations and back office administration for two private investment funds for 7 years.

Ms. Pullinger is Chair and Non-Executive Director of the Board of FlyPlymouth, based in Plymouth, United Kingdom. She also serves on the Boards of the HALO Trust (USA), the American Friends of The National Portrait Gallery (London) Foundation, and as a Director on the Oxford University Alumni Board. She is Vice Chair of the Women's Network Forum and an Advisory Board Member of the Harambe Entrepreneur Alliance (Harambe).

Previously, she served as Chairperson of the Board of The HALO Trust ([www.halotrust.org](http://www.halotrust.org)) and served on the Board of the Langone NYU Cancer Institute. She was on the founding Board of 100 Women in Finance, serving as its President for 2 years. She is a member of the British Academy of Film and Television Arts (BAFTA) and a Fellow of the Royal Society of Arts.

Ms. Pullinger graduated from Brasenose College, Oxford University in 1987 with an Honors Degree in Modern History. She earned an MBA from La Salle University, Philadelphia in 1998, and received the Academic Award for MBA student of the year as well as the Beta Gamma Sigma designation.



**Amanda, 2020 marked 100WF's 20th anniversary. How has your mission evolved over the last 20 years?**

100 Women in Finance started its journey as 100 Women in Hedge Funds. Based on the tremendous support and interest by organizations and women from other finance sectors, we relaunched as 100 Women in Finance in 2016 with a mission of empowering women across the finance industry.

As I reflect on what we have achieved, the fact remains that the number of women in the industry has not changed much in the past 20 years. We've found that two demographics are slow to grow: a) senior investment professionals and b) executive committee members. We believe we can make progress on the ratio of women to men, which will benefit women in every single role.

To tackle this, we've created our guiding principle, Vision 30/40. Our goal is to see women occupy 30% of senior investment roles and executive committee positions by 2040. As this is not a simple problem to solve, we will try different approaches and give ourselves time to achieve this goal.

But how? By engaging the next generation of pre-career women who we can inspire. As part of the journey, we've got to understand where we are now, track our progress, and analyze what the data tells us.

We are very pleased to be partnering with Deloitte in measuring our progress on executive committee memberships. And there is more to come!

**How have things progressed towards achieving 100WF's goals over the 20 years since you launched? Are we seeing change?**

If we look at asset management specifically, only about 10% of the world's fund managers across hedge funds, private equity (PE), venture capital (VC), and long-only mutual funds are women. That percentage hasn't changed over the 20 years of our organization. Regarding our mission to attain 30% over 20 years, I can say that if this were a simple problem to solve for our industry, we would have already solved it.

To increase the number of women, particularly in investment roles, we need to try many long-term approaches. I believe 20 years is realistic, as it allows us to engage the next generation, as well as pre-career women, to support their growth and inspire them. We do so not only by connecting them with women who are successful in these roles, but also by showing them the positive impact that our industry is making on ordinary people's lives.

As an industry, we've done a terrible job communicating that 80% of the assets we manage are for endowments, foundations and pension funds. Both men and women of the next generation are not aware this is the case. To engage and attract them, we need to demonstrate the difference we can make in the world, the really interesting roles in the industry, and the pathway to get there.

**Deloitte was an early member of 100WF's Leadership Council, a select group of international banks, alternative investment firms, and asset management firms who are committed to supporting 100WF's long-term mission. How are you collaborating with your leadership council to gain traction toward Vision 30/40?**

We need to engage the industry for our vision to succeed because we need things to change within firms as well as externally. We want our industry sponsors and members to come along the journey with us. One of our exciting initiatives this year is a new Diversity, Equity and Inclusion (DEI) Corporate Award that covers the Americas, EMEA and APAC. We've completed our first round for EMEA and received 27 applications.

As part of this process, we examine the percentage of the corporation's senior female professionals today and 2 years ago, as well as its DEI targets, policies and initiatives put in place over the past few years. With this information, we will not only recognize the corporations walking the walk both internally and externally, but also publish a guide on how corporations of all sizes across cultural lines are approaching this topic.

We will be publishing the initiatives of our first award and creating materials to share best practices and help companies achieve the 30% goal. I believe that, by all of us working together, we will reach the executive committee role percentage much sooner than 2040. And if we apply the approaches I mentioned earlier, we can get there faster for investment professionals too.

**Have the challenges of the global pandemic impacted the trajectory towards Vision 30/40?**

One of the amazing outcomes of the COVID-19 pandemic

was that it allowed 100WF to grow globally. We gained more women voices as experts, with over 300 speakers joining the discussion. We adapted to the restrictions by hosting more virtual events, and now have over 300 hours of on-demand recordings to share with members.

Our global footprint is now in 31 locations across five continents, most recently in Africa, including South Africa that just launched in June, and Kenya. If our global corporate members have employees in a location, we will be active in that location. We've seen a massive influx of companies approaching us because they want their people engaged in this global network.

We also took advantage of this time to develop our programs to help us reach Vision 30/40. We've hired a Chief Impact Officer, Chaitali Patel, whose background in business strategy is truly transforming how we approach

our mission. Our outreach to pre-career women has resulted in us adding more than 160 universities to our roster, identifying strategic non-profit partners to support, and harnessing our 20,000 registered members to mentor and guide these students across locations during both virtual and in-person events.

I believe we're changing the world, one girl at a time. We now have our own scholarships and a proprietary suite of programs such as Jumpstart, Launch Me, and of course Cayman's mentoring program GirlForce 100, our first internally developed program to reach pre-career young women.

**Our Deloitte CFO surveys have indicated that talent is now the top priority of senior executives. What are you seeing regarding the so-called war for talent?**

The industry is desperate for talent. The Great Resignation has exacerbated an already

existing issue, and companies are under huge pressure to not only attract talent but also increase the diversity of their people. We are building a solution for the industry, and we can also connect companies with staff of all levels, from early career applicants to senior professionals.

We are increasingly the connector, whether it is for board opportunities or investment roles. Our website lists the contacts of more than 500 female portfolio managers, and our hugely successful global Fund Women conferences connect institutional and other types of investors to these portfolio managers. We also offer pre-career internships. Our organization is at an amazing place to serve the talent needs of the industry.

**You have mentioned that the visibility of women in the industry is a key driver for change. Can you tell us more about that?**





## TO THE POINT

- 100WF is a global network that empowers women at every stage of their careers.
- The organization's global footprint has grown to 31 locations across five continents.
- Vision 30/40 aims to see women occupy 30% of senior investment roles and executive committee positions by 2040.
- With a global network of more than 20,000 registered members and a suite of programs, 100WF is making an impact by engaging the next generation.

Visibility to me is critical. As we talk as a global organization about diversity, our membership features very diverse people. For me, every single woman can make a difference for each other and the next generation, whether it's getting involved in our Launch Me program and mentoring a woman in the industry, speaking on panels, writing articles, or leading an initiative. You may never know the impact, but I can tell you, it will be dramatic.

I'll give you a very personal example. Margaret Thatcher was the first in her family to go to university and she made it to Oxford. I went to Oxford because I was influenced by this woman I had never met but who was visible to me. Think about that. Increasing your visibility will also change your career trajectory along the way.

If we are going to reach Vision 30/40, we need to change the perception of what a CEO looks like. Interestingly, there are more women CEOs and more female chairs of boards in Nigeria than I have seen elsewhere. They have something we need to share with the rest of the world because women in our industry need to see that it is possible.

I want to encourage all women to be increasingly visible both

internally in their firms and externally. It's good for them, and it's good for the next generation.

**As we rebuild the workplace, how can companies put equality, diversity, and inclusion at the core of their talent strategies? What are some of the things employers can do to make the workplace more inclusive?**

I believe we cannot achieve our mission by ourselves; we've got to engage both men and women in the industry. The number one way to help is to be deliberate in giving women on your team opportunities to be visible. Find them a 100WF panel, and if they aren't comfortable, get them a coach.

The impact will change lives. When management is actively supporting diversity, they will be pleasantly surprised at what women can achieve on that stage, and it will make a difference to their colleagues and their clients. I also believe women need to ask for an opportunity, and are encouraged to use this network for that purpose.

**Tell us about your journey here in Cayman.**

It all started 10 years ago at a breakfast in New York, when a small group of women in Cayman created a proposal to set up a Cayman Islands location. It now has more than

800 members and is the fourth largest 100WF location behind New York, London and Hong Kong.

What was unique about the Cayman 100WF is that most locations start with the Education pillar and slowly grow over time to add Peer Engagement and Impact. The Cayman location had a huge demand for all the initiatives we had developed; therefore, within its first 3 years, it had established an active Education committee, an annual Impact global gala fundraiser, active peer engagement groups, a NextGen group and a NextGen Inspire conference. All of these had a clear impact on the early careers of professional women.

They then layered 100 Women in Finance's proprietary program GirlForce 100, which mentors pre-career girls attending both public and private schools in the Cayman Islands. It is truly inspiring to visit the Cayman Islands and all locations to meet the organization's beneficiaries first-hand, and see the impact we are making on their lives. I'm very proud of everything we have built together here, and I'm excited to see what more we can achieve together over the next 10 years of 100WF in the Cayman Islands and globally.

## CONCLUSION

- The industry is demanding a diverse talent pool, and 100WF is working closely with its members, global corporate supporters and program partners to offer solutions to the challenge.
- 100WF is increasingly the connector for companies seeking talent for board opportunities and investment roles, and a pipeline of early-stage female professionals to join their team.
- To engage and attract the next generation, we need to show the difference we can make on a global scale, the interesting roles on offer in the industry, and the way to get there.
- Increasing the visibility of women in the industry is crucial to achieving 100WF's Vision 30/40, 30% more women by 2040.
- By harnessing 100WF's global network and taking deliberate action, 100WF believes it will reach Vision 30/40 much sooner than planned.

# What's driving investment and wealth managers' ESG strategies?

DATA CONNECTS E, S AND G



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## INTRODUCTION

Data is central to investment and wealth managers' ("managers") environmental, social and governance (ESG) strategy. However, collecting and managing the right data can be a "wicked problem": broad, complex, and with constantly evolving business and regulatory requirements. The effort to address one challenge may uncover or even create another.

But what does this mean for you? The implications vary across the three ESG pillars.

**Environmental** challenges are market wide, affecting assets both publicly and privately owned. They have created a systemic need for data.

By contrast, the consideration of an investment's **social** impact, the need for managers to address it and the data required remain immature at the business and regulatory levels.

Finally, **governance** is overseen at the corporate level. Managers are now shifting their focus to linking corporate and enterprise data governance, and how this can help establish a more streamlined and robust framework for managers to execute their investment strategies.

This article addresses the E, S and G data challenges by exploring the data lifecycle journey and outlines a series of takeaways for your ESG strategy.

### **E: private market data is tough to find, even when you know what you're looking for**

While public market investors were the first to focus on ESG concerns, private markets have now caught up.

Standards are finally emerging, albeit slowly. But while requirements are evolving, it is difficult to access any ESG data. Limited information on private companies' climate positions is publicly available or easily accessed. Moreover, the data provided by companies themselves is often immature or incomplete. While investors can look to third-party data providers, this process is often costly with patchy results.

Accordingly, analysts and managers are scrambling to find new, alternative data sources<sup>1</sup>. These should be agile, accurate, reliable, comparable, diverse, granular, and forward-looking. Examples of alternative data sources to ingest or import are:

- Real-time **traceability data**<sup>2</sup> that includes information on portfolio impact (e.g., product passports, carbon footprints and social criteria). By providing transparency, managers build trust and confidence in sustainable products and services.
- Environmental **geospatial data** (i.e., time-based data related to a specific location) that is integrated into the data framework to gain insights on initial and ongoing environmental impacts.
- **Forward-looking data** (i.e., data points that seem disconnected or irrelevant but form a useful input for analysts when connected, or smart web scraping of information that is hard or costly to find through traditional sources) to build algorithms and artificial-

intelligence-driven profiles for private companies.

### **S: go the extra (social) mile**

Managers mainly focus on the E and G in ESG since both benefit from relatively accessible and measurable data. By contrast, quantifying the social impact of investments is a significant and complex challenge, with the lack of standardized social metrics and well-defined regulatory requirements leading to confusing S reporting.

Nonetheless, the S needs to be considered as much as the E and the G. Academic research<sup>3</sup> has shown a positive correlation between firms' social and financial performance. Managers should examine how companies measure social objectives and monitor them.

While public market investors were the first to focus on ESG concerns, private markets have now caught up.

### The **EU Social Taxonomy**

has suggested three social objectives:

- Decent work for employees along the value chain;
- Adequate living standards and wellbeing for consumers; and
- Inclusive and sustainable communities.

While the EU has not yet specified regulatory requirements for data, managers will be held accountable for the impact of their investments along these social objectives.

For example, are investee companies supporting their



employees' health and wellbeing through absence and churn management processes? Managers could monitor changes in key performance indicators (KPIs)<sup>4</sup>, such as staff turnover, training and qualifications, absenteeism rates and reasons, and the workforce's maturity, and document the evolution over time.

To prevent "social washing" risks<sup>5</sup>, managers should actively engage with investee companies to collect data points that map to these social objectives. For example, oil and gas companies should mitigate the risks of job losses in oil-dependent cities like Aberdeen as they transition to renewable energy.

Managers should also gather information on the community impacts of investee companies' activities. These impacts have historically either been wholly overlooked or minimally considered in the desire to produce financial

results, or directly affect investment strategy or portfolio performance.

### **G stands for governance: data as well as corporate**

Managers have realized the importance of ESG data and consider it a valuable commodity, not only to cater to regulatory requirements but also for investor reporting, product development and alpha generation.

Nonetheless, when it comes to the G, the most-used metrics focus on traditional concepts, such as corporate governance, business conduct, risk management, supply chain management and materiality policies. Few metrics explicitly link the concept of corporate governance to data governance.

The increase in data sources and volume, both internal and external, have created operational challenges for ESG data governance across all steps



of the data lifecycle. But the most critical challenge is how to aggregate and transform data while maintaining consistency and quality.

current data governance processes, managers may seek to enhance their current tech infrastructure.

**A better ESG data governance process: action points in the ESG data lifecycle**

Managers need to set goals for their ESG data lifecycle across four stages:

- Collect and ingest data from various sources for both public and private investee companies;
- Normalize data, and build a data model that aligns with your operational model;
- Map the data to your appropriate frameworks and processes; and
- Analyze, approve internally, and publish to internal and external end-users, i.e., regulators and investors/ customers.

Managers should also gather information on the community impacts of investee companies' activities.

Non-standardized data inhibits managers from assessing ESG-related performance and may lead to greenwashing risks. Therefore, ESG data governance and associated data quality control are key. To meet evolving regulatory and client requirements and improve

Table 1 lists the actions that managers can take at each step in the ESG data lifecycle.

**Table 1:** ESG data lifecycle

|                          | E   | S  | G  |
|--------------------------|---|--|--|
| COLLECTING, INGESTING    | <ul style="list-style-type: none"> <li>• Avoid relying on a single data source;</li> <li>• Tailor the scoring methodology to the business model;</li> <li>• Public market: collate and confirm data and incorporate existing data;</li> <li>• Private market: start engaging directly with investee companies; and</li> <li>• Collate requests when requiring data from investee companies.</li> </ul>  |  |  |
| ALTERNATIVE DATA SOURCES | e.g., supply chain analysis traceability data; geospatial data and forward-looking data.  | e.g., web scraping from Glassdoor for employee satisfaction data <sup>6</sup> ; LinkedIn for staff turnover data <sup>7</sup> ; and sentiment analysis from social media for consumer satisfaction data. | e.g., traceability data; and web scraping from Glassdoor/LinkedIn for salary data. |
| MANAGING, MODELING       | <ul style="list-style-type: none"> <li>• Procure or build smarter data management applications or hubs;</li> <li>• Don't be afraid to embrace a more federated (than fully consolidated) data model: your ESG data needs will evolve and will not always be fully aligned to your various business needs;</li> <li>• Nominate data owners in the business, with the technology team as the enabler and direct partner to the business; and</li> <li>• Assign data stewardship to the data management team to be responsible for monitoring the process and critical data elements over time.</li> </ul>                       |  |  |
| MAPPING TO FRAMEWORKS    |   |  |  |
| ANALYZING, PUBLISHING    | <ul style="list-style-type: none"> <li>• Proactively disclose information through detailed sustainable reporting and newswires via smarter techniques, like natural language processing (NLP) or sensitivity analysis;</li> <li>• Design, implement and embed agile reporting across all your lines of defense, with the major drivers being consistency, availability, and timeliness of data; and</li> <li>• Invest time to embrace and embed smarter analytics in your business, to support your workforce's productivity and wellbeing by reducing the time needed to perform daily, time-critical activities.</li> </ul> |  |  |

### Collecting and ingesting data

While every company has both positive and negative E, S and G impacts, there is a huge divergence in ESG ratings from vendors, with discrepancies in measures, scope and weights. While variations around scope and weights are acceptable, divergence in measurement is problematic<sup>8</sup>. Given their fiduciary duty, managers must choose their data providers carefully and be ready to explain why they have made certain choices to all stakeholders, from employees to customers and regulators.

Managers should tailor the scoring methodology to their business model. They should make a cohesive data-gathering plan, collate separate requirements and identify regulatory overlaps to minimize and streamline information requests from investee companies. While managers can collect data directly from private companies, for public companies, they can use proxies from modeling approaches and incorporate existing information from entity structures.

For material companies, ongoing updates and confirmation should be incorporated into an incremental update to the active engagement agenda in the operating model.

### Managing and modeling data

A sound data-governance process is required to effectively manage the data collected. This should include a single platform that standardizes and consolidates data from various sources, and a well-designed data model flexible enough to incorporate new data and extend the database. Any new data should feed into the same platform so

all stakeholders can access the same information.

A sound data-governance process is required to effectively manage the data collected.

The rapidly broadening regulatory requirements for market data—from indexation, valuation and pricing data to newer data such as geospatial, sentiment or cardinal emotion—are so complex that few participants can understand them. This naturally leads to a layer of review and oversight, which is not intuitively achievable by managers today. Therefore, education on these key measures and how to use them is essential.

From a data perspective, this requires a clear nomination of data owners and stewards who can provide the ongoing steer, metadata and oversight of the data. Ownership should not lie with risk and compliance nor with sales and trading. Instead, the business should own it directly, with the technology team as the enabler and the data management team as the steward.

The enabler needs to collect and ingest data from various sources, while the owner and steward should collaborate to set rules for both data quality and the monitoring process. The steward should also assess data fields' criticality and monitor the process and critical data fields over time to ensure all data is aggregated promptly and accurately.

This data governance structure can ensure the information

is correctly held and the data “use-case” is appropriately measured. The ability to fully automate this process and provide it to the decision-makers heavily relies on controls and high data quality. Data governance should also be embedded in the operations model with assurance.

### Mapping, analyzing and publishing data

A broad range of disclosure standards and frameworks has been developed, where managers can organize the data by mapping it to the appropriate framework(s). Table 1 lists some examples of widely used ESG frameworks. While no existing regulatory framework exists for the S, an alternative is to map data to companies' social objectives.

After documenting the data, companies need to publish how their metrics have evolved over time. An analysis framework is also required to access the datasets and gain actionable insights. New tools and technologies can help in extracting and delivering insights at scale.

After documenting the data, companies need to publish how their metrics have evolved over time.

For example, many public companies have been proactively disclosing information through detailed sustainable reports and newswires using NLP or sensitivity analysis. Processing reports with NLP can retrieve information directly and



## TO THE POINT

- Set clear processes and controls across the ESG data lifecycle, from collecting and ingesting, to managing and modeling, mapping to the appropriate frameworks, and publishing to end-users or your clients.
- Collect and confirm ESG data from material public companies before use; address data gaps in private markets by engaging directly with investee companies or using smarter technologies (e.g., artificial intelligence).
- Seek diverse, alternative data sources to improve the baseline understanding of the risks faced by both individual assets and the whole portfolio.
- Establish a cohesive data-gathering plan, collate separate requirements, and identify overlaps to minimize and streamline information requests.
- Nominate clear data owners and assign data stewardship to provide ongoing oversight.
- Establish ESG data frameworks to provide standardized results across diverse asset classes at both the asset and portfolio levels.
- Create clear connection points and leverage synergies between data and corporate strategies.

promptly, and compare and assess vendors' or internal ratings. Managers should centralize the most accurate view of the data once an update is collected or overridden.

While managers are free to follow their own procedures, a common framework is necessary to facilitate and align the E, S and G to support decision-making and reporting.

## CONCLUSION

ESG is not solely about the E, S, or the G; all three should be addressed together. While market dynamics are driving change in the E, market participants are not mature or bold enough to tackle the S; so managers should go the extra mile. Overarching data governance is equally important as corporate governance for the G. Managers need to own, manage and clearly strategize around data.

ESG data frameworks should be established at both the asset and portfolio levels, and provide standardized and comparable results aligned to diverse asset classes. The ongoing improvements in ESG data should enable managers to account for previously unmeasurable metrics that are valuable to stakeholders. The evolution and maturation of ESG data will improve decision-making and drive the growth of incorporation of ESG factors into investment decisions.

## Endnotes

<sup>1</sup> CFA Institute, *AI pioneers in investment management*, September 30, 2019.

<sup>2</sup> We appreciate Andrew Matthews, Deloitte and Andrew McNeill, Deloitte's content contribution on traceability data.

<sup>3</sup> Joshua D. Margolis, Hillary Anger Elfenbein and James P. Walsh, *Does it Pay to Be Good...And Does it Matter? A Meta-Analysis of the Relationship between Corporate Social and Financial Performance*, March 1, 2009.

<sup>4</sup> The European Federation of Financial Analysts Societies Framework, *KPIs for ESG*, 2009, provides managers and companies with recommended KPIs within the framework of an existing performance communication, e.g., financial reporting, management discussion and analysis, corporate social responsibility reports, and the Global Reporting Initiative's G3 Guidelines.

<sup>5</sup> Etica Sgr, *Social washing: What is it and why could COVID-19 be making it worse?*, July 3, 2020: "Social washing can be defined as a practice aimed at improving a company's reputation through social responsibility initiatives which are not effective or, in the worst cases, under the guise of social responsibility but with the goal of economic return."

<sup>6</sup> Rick Lacaille, Anna Bernasek, Karen Wong and Phil Kim, *The future of ESG: Supplying the demand*, State Street, June 2022.

<sup>7</sup> J.P. Morgan Asset Management, *ESG social factors: Accessing the "S" in ESG*, April 2022.

<sup>8</sup> Florian Berg, Julian Köbel and Roberto Rigobon, *Aggregate Confusion: The Divergence of ESG Ratings*, Forthcoming Review of Finance, August 15, 2019.

# Walking the path to net-zero with clients

IN CONVERSATION WITH FABIANA FEDELI  
OF M&G INVESTMENTS

## INTRODUCTION

M&G Investments is part of M&G plc alongside Prudential, the British life insurer founded in 1848. It is a signatory to [The Net Zero Asset Managers Initiative](#) (NZAMI), committed to supporting the goal of net-zero greenhouse gas emissions by 2050 or sooner.

Fabiana Fedeli joined M&G Plc in August 2021. She has been appointed to the newly created role of Chief Investment Officer, Equities and Multi Asset, overseeing GBP100 billion in assets under management. Joining from the Dutch Asset Manager, Robeco, a pioneer in

sustainable investing since the 1990s, Fedeli has a long track record of success in this field, and her M&G Investments' brief includes integrating sustainability into the firm's active equity and multi-asset offerings.

In this interview, Fedeli talks about her passion for nature, M&G Plc's deliberate approach to environmental, social and governance (ESG) commitments; finding "alpha" by broadening the sustainability investment set; regulatory and data challenges; and taking clients on the path to net-zero.





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**What sparked your interest in sustainable finance?**

I have a passion for outdoor sports and nature, and I realized the impact that we are having on biodiversity [and the] climate. My previous experience in the Netherlands, where people are very aware of the environment, [had] an impact on me. We cannot be blind to climate change and the [effect] we have on biodiversity. We don't want to leave that kind of world to our next generations. I worked for an asset manager who is [a] pioneer in sustainability, with colleagues who had been trying to embed sustainability in investment since [the] 1990s. I found their passion towards sustainability fascinating and energizing.

**Some believe that the investment manager or the country that acts on climate first pays the costs at the expense of higher returns, while others get a free ride. The argument is that if you invest in a smaller asset class, the returns must be lower by definition. Or, to put it another way, is it harder to generate "alpha" given the "herding" towards, and overpricing of, ESG-compliant assets?**

No. For many years, sustainable strategies have outperformed mainstream strategies, and they are bound to have periods of underperformance at times. But the long-term prospects are strong. We are simply following an important trend in our lives, in the way we do business, [and] in investment. Even if you just want to go by the principle [of] "follow[ing] the money", then you must follow investment in a low-carbon world.

**There are different rationales for sustainable investing, for example, momentum or moral. Some also argue there is a correlation between companies that are well-run regarding climate and well-run**

**in other ways. What is the most important driver for allocating assets to sustainability goals?**

I believe [that] anything that is well-run from a carbon standpoint is also more efficient. There has been a lot said about the impact that the invasion [by] Russia of Ukraine has brought in terms of higher prices of hydrocarbons. A company that had invested in efficiency and found alternative fuel sources [is] probably better off than companies that are completely exposed to carbon and had not made any efforts toward efficiency.

Sustainability is not only about climate, but also the way you interact with your employees, impact communities, and the way you interact with the public from a social perspective. Governance is paramount.

One of the areas that [is] not always as well understood [and] capitalized on [in sustainability] is the opportunity set. When we talk about sustainability, we all think about renewable companies. Sustainability is so much more than that.

Journalists [often ask how we find investments in] the low-carbon ecosystem [when there are] very few companies listed. That's not true. Sustainability is [also] traditional companies that have implemented more efficient operations. Sustainability is companies that have software, for example, AI or hardware, that is facilitating better use of our resources.

If you consider sustainability not only as a risk but also as an opportunity, [it] impacts your top line. You can expand [into] areas where no one else has gone. You can find a new set of clients. Many companies in traditional sectors have

significantly expanded their footprint towards more sustainable [and] efficient practices, and new technology.

**How would you describe M&G Investments' approach to sustainable investing?**

M&G [Investments] has not been a pioneer [of] sustainability and yet some of the teams, through passion, hard work, determination [and] focus, have really reached a very high standard, comparable to others in the industry who claim to be pioneers. That was something that positively impressed me. It is pervasive across all the teams to try to achieve first-rate ESG research and first-rate results.

Our approach [to sustainability] is in line with [what] M&G [Investments] has always done. That is based on fundamental research—in-depth, in-house, as much data as we can gather, and trying to develop the best tools from an IT standpoint to support us in that.

With every type of research that we do, we want to have the best data [possible] to base [investment] considerations on. This is more difficult from an ESG standpoint because a lot of the data is nascent [and] still not complete, not coherent ... and that is really one of the biggest difficulties for us ... [getting data on] smaller [investee] companies' scope three [value chain emissions], rather than scope one [direct emissions] and scope two [indirect emissions]. It's a certain granularity of data that is still not there.

And that is really one of the biggest difficulties for us.

There are also instances where two data providers might have contradicting data points. What we try to do, in that instance, is



to use our internal research to make sure that we drill down and verify the data.

For example, there is often [the] double counting of water or carbon emissions when there is a holding company with subsidiaries under it. That is a common error and a risk. [This] is why we [strongly] believe that fundamental research really adds value when investing in sustainability.

But data has improved over the last few years, and we feel we have sufficient data in certain areas where we can make carbon-related commitments.

It's funny when companies claim that they're just perfect

at sustainability. Nobody is perfect at sustainability. We are still at the beginning of a journey, but we're very serious about this journey.

**To what extent do you interact with other sustainability strategies in M&G Investments, such as Catalyst [an initiative to invest up to GBP5 billion in privately-owned assets tackling ESG challenges]?**

A lot! One of the traits that really attracted me to M&G [Investments] is that we are large enough to have a very wide set of resources in public and private markets, but small enough that we can interact in a close way. M&G [Investments] is incredibly advanced and determined to achieve results but do[es] things in a very

cautious, thoughtful, and deliberate way.

**Some see investment management as the key catalyst for the net-zero transition. Do you agree? And is the industry fulfilling its potential?**

We believe that our industry has a role to play, [but] there is a shared responsibility. We're not able to do [this], first and foremost, without our clients. We have [a] fiduciary duty towards our clients, and we need to walk this path together.

[Most] clients agree with sustainability goals. [Most] see where the world is heading, but not all clients are at the same stage.

Secondly, [we're unable to reach net-zero] without governments [and] regulators helping us with clear and consistent guidelines. In Europe, the regulator is a very strong engine behind [sustainability]. The [EU's] clear guidelines and better disclosure on sustainability broadly [reflect] public opinion.

It is important that regulation remains clear and consistent. One of the biggest challenges [is] to make sure the industry [has consistent] regulation across different regimes. We invest globally, and our clients are everywhere in the world.

Geographically, there is a very big difference. Clients in Europe are keener on

embedding sustainability in investments; [while] in North America, sustainability is still not at the forefront. I'm sure the pace of regulation is partly to do with [these differences]. Asia is developing quickly, as Asia often does, on the path towards sustainability.

**Russia's re-invasion of Ukraine appears to have placed energy security and the cost of living in conflict with the net-zero transition. Has the conflict, and the big sell-off in equities in the first half of 2022, changed your view on the speed of the transition?**

No. If anything, it has underlined that we have to speed up our independence from hydrocarbons, particularly in Europe. At M&G [Plc], we believe in a just transition. If you look at our coal policy, we really support and engage with companies. We don't simply strike them out because they might still have a coal plant. We want to make sure [it] is being phased out in a reasonable amount [of] time, [and that] it's not being sold to rogue operators.

I don't think any clients doubt that, [in the] longer term, the world is decarbonizing, but many have concerns that it's going to take time. And they have a fiduciary duty towards, for example, retirees. They have a concern that they might be missing out on some opportunities [by] completely excluding carbon.



**Fabiana Fedeli**

Fabiana joined M&G Investments in August 2021 and is Chief Investment Officer, Equities and Multi Asset. She was previously Global Head of Fundamental Equities and Portfolio Manager in the Emerging Markets Equities team at Robeco, responsible for teams in Rotterdam, Zurich, Hong Kong and Shanghai.

Prior to joining Robeco in 2013, Fabiana was a Portfolio Manager Asian equities at Pioneer Asset Management and at Occam Asset Management.

She began her career at ING Barings Tokyo as a Research Analyst in Japanese equities in 1999.

Fabiana holds a Master's in Economics from Hitotsubashi University in Tokyo and a Bachelor's in Economic and Social Sciences from Bocconi University in Milan.

We understand that, and we work together on the transition toward decarbonization.

**The *Financial Times* published a “Big Read” article called “The war on ‘woke capitalism’”. What’s your view on the perceived slowdown in or even backlash against ESG?**

We carry on with what we have been doing, [supporting a just] transition [and] not just strik[ing] out all hydrocarbon investments. We obviously have sustainable strategies. We have climate strategies. We have Paris [Agreement]-aligned strategies, and [these] have very strict [guide]lines on hydrocarbons. But, as an asset manager overall, we still invest in some hydrocarbons. We talk a lot with clients. Debate is a very good thing.

**M&G Investments has joined the NZAMI initiative. What are you doing to reach net-zero?**

We’ve done a lot. We have joined the [Powering Past Coal Alliance](#) (PPCA) and implemented our coal phase-out strategy. We have joined a few initiatives, such as the [Climate Action 100+](#). We’re being very active in

engaging with [investee] companies. We are part of the [Climate Transition Plans](#) (CDP). We collaborate with CDP, in particular working on water security, risks and opportunities. We have an impact team working on biodiversity [and] on how we can best embed that in our investment strategies. These are just a few examples.

**M&G Plc complies with the UK’s Stewardship Code. How do you choose between active engagement and divestment of “brown assets”?**

For us, engagement is way better than exclusion. If we can engage with companies [and] help them transition to having a lower impact on the environment, to better practices from a social standpoint, or to better governance, that is always [our] preference.

**Are there any other challenges that you would call out in terms of implementing ESG strategies?**

There are two potential disconnects between what we as an asset manager might want to do from a sustainability standpoint, and [our] fiduciary

## TO THE POINT

- Sustainability is not only about climate but also about how investee companies interact with employees, communities and the wider public.
- When it comes to “brown” assets, engagement is much better than exclusion.
- While investment managers can catalyze the net-zero transition, they cannot achieve it alone. They need to include clients on this journey, and for governments and regulators to set clear standards and taxonomies.
- The key to generating higher ESG-compliant returns is to broaden the sustainable opportunity set. It is not just renewables but also traditional companies making better use of resources.
- ESG data is nascent, incomplete and incoherent. Cracking this nut is one of the most significant challenges of ESG investing.

duty towards our clients. One is the timing. We might decide that, based on our values, we want to walk faster on that path towards net-zero, [but] our clients [may] need more time.

Also, those goals that we talked about, and also the alpha that I strongly believe will come from our search for a more sustainable world, is the longer-term objective. Some of our clients might have shorter-term

goals. [For example] what has happened with hydrocarbon prices during the Russian invasion of Ukraine [has] clearly created a shorter-term opportunity on hydrocarbon prices. There is a timing disconnect between the longer-term nature of sustainable goals and shorter-term cycles in the market.

There are also the other disconnects, such as culture and geography. Some geographies are far more advanced on the path to sustainability than some others. So that is what [I wouldn’t say] worries me, but [rather what] I have to pay a lot of attention to, really making sure that this is a journey that I am walking with my clients.

When I talk to many of my team members, particularly [but] not only the younger ones, they really believe in [a] carbon-free world. They’re really passionate about it. So, to me, that is enough of a reason to believe that we will eventually get there.

<sup>1</sup> Andrew Edgecliffe-Johnson, “The war on ‘woke capitalism’” *Financial Times*, May 27, 2022.



# Enhancing Investment Stewardship:

## MODERNIZING THE ACTIVE OWNERSHIP OPERATING MODEL



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### INTRODUCTION

Driven by the sustainable finance agenda, investment stewardship or ‘active ownership’ is central to demonstrating a firm’s asset management capabilities. While always an important part of long-term value preservation and creation for active investment firms, its role in enforcing sustainability-related change has brought the function to greater prominence. This has led to greater scrutiny on stewardship activities, not just from clients and

regulators but also a myriad of other non-related interested parties such as non-governmental organizations (NGOs), climate groups, and the media. This article explores the recent drivers of change including requirements for greater transparency and considers best practices for the stewardship process more generally, including wider operating model implications.



## A brief history lesson

The concept of investment stewardship is borne out of the philosophy that intervention is required to ensure that assets maintain or enhance their value over time, or at least do not decline due to neglect or mismanagement. As stewards of clients' money, investment firms can use their influence to maximize long-term value through formalized or targeted interventions with investee companies. This takes the form of exercising voting rights or engagement with investees or issuers. Engagement is a key aspect of stewardship and is based on informal and targeted dialogue with management and boards of investee companies. Historically,

engagement has focused on strategy, risk management and corporate governance as additive factors for investment decision-making, including long-term buy or hold decisions. However, in recent years the significant growth of sustainable finance and its analogue Environmental, Social and Governance (ESG) integration, has brought greater prominence to the consideration of ESG factors within the stewardship process.

## Drivers for change

Unsurprisingly, regulation has been the key catalyst for change over the last 3 to 4 years, driven by an agenda to enforce that asset managers and asset owners provide greater transparency on how they invest and encourage

long-term participation in the life of companies as part of building a sustainable economy. This drive for transparency has led to a much higher standard of reporting, with the two most impactful recent initiatives being the EU Shareholder Rights Directive II ("SRD II"), and the principles-based UK Stewardship code ("UKSC"). Although voluntary, the UKSC is seen as a standard bearer for stewardship in the UK with an increasing number of signatories.

These standards are driving firms to enhance their stewardship processes, approach and methodology with increased formality and robustness. Investment firms are encouraged to set forth their principles for engagement; frameworks like the European Fund and Asset

Management Association (EFAMA) Stewardship Code have been developed to bring a level of market consistency. The key change from the core stewardship regulation is an emphasis on demonstrating the outcomes of key engagement and voting decisions.

It is no longer enough to engage with investee companies and disclose voting records; at the heart of the regulation is an emphasis on well-defined intent and clear outcomes. This, in turn, is driving change through the engagement value chain, enforcing greater rigor on all forms of interaction with investee companies, a focus on enhanced data collection and a need for better analytics and reporting. Firms are having to evaluate their stewardship

operating model to ensure they have the requisite structures in place across all teams involved throughout the process. UK and European regulators have been at the forefront of pushing this change; however, like other sustainable finance regulations, these changes span across all markets in which a firm invests.

## A wider remit

With the sustainable finance agenda elevating the status of investment stewardship, the function plays an even greater role for active investment managers. First, the function now plays a key role in outwardly expressing a firm's view on key ESG issues. Voting history has long been a public record and provides outsiders with a view on how likely firms are to vote for or against management proposals, as well as highlighting a firm's view when voting on controversial issues. The additional focus given to ESG in recent years has brought stewardship activities into the spotlight like never before. Consequently, it means firms must be extra diligent in how they reach decisions, especially where there are trade-offs involved between taking a stand on environmental or social issues versus possible financial materiality.

Second, with sustainability risk now a core component of investment analysis, stewardship data can act as an important qualitative input to the investment process. For example, an analysis of voting records can highlight shareholder concerns on a variety of issues and bring to light possible material controversies. Equally, analysis on engagement activity can highlight which investee company management is

more receptive to investor engagement, which can be useful if active ownership is a core lever in meeting net-zero targets, as well as offering the potential to add long-term value where this is material to the asset.

Last, the enhanced level of transparency on engagement activities has led to a need to be more formalized across all parts of the stewardship process. This is especially important for firms that are using active ownership as a tool to meet their net-zero commitments, such as under initiatives like Net Zero Asset Managers (NZAM). Every interaction with an investee company can have significant importance, especially where it provides context or evidence for external reporting on stewardship activities, e.g., evidencing progress against net-zero Key Performance Indicators (KPIs). When adequately captured, all engagement activity can be additive to subsequent stewardship reporting, as well as investment decision-making, and is critical for efficient annual reporting under SRD II and UKSC.

## People & organization

With this ever-greater focus on investment stewardship to drive value and sustainable outcomes, firms are considering key enhancements to ensure it can deliver its new remit.

A continued trend in recent years is the expansion of stewardship teams; however, hiring has not been the only way that firms have looked to meet the new demands on the function. Some larger asset managers with a

diverse geographic spread of investments have looked to hire or redeploy stewardship analysts in specific locations in order to develop specialist market intelligence. This can form part of a hub-and-spoke model that combines regional analysts with a central hub that provides management and coordination, along with undertaking voting action. There is also a trend for greater specialism in the stewardship function with analysts having sector expertise or strong knowledge on thematic issues. For firms with less resources, some level of specialism within the team can be beneficial, while combining this with wider industry group participation

and external collaboration where appropriate. More broadly, outside the stewardship function, there is an overarching requirement to ensure closer internal collaboration and coordination between all teams involved in the stewardship process. This can span everything from periodic planning and prioritization of engagement targets between front office and stewardship teams, to closer links between stewardship analysts, front office, and reporting teams to contextualize engagement activities and write case studies. For many leading investment managers, active ownership is an extension



of the investment function with greater alignment and conference between the stewardship team and portfolio managers as a general part of long-term asset management. This operational proximity provides the added ability to share insights on sustainability and governance matters. For global asset managers with diversified portfolios, it is even more important to have local insights into investee companies. For large investors this can mean having stewardship specialists geographically dispersed, located close to markets where the firm has significant exposure but usually with hubs in major financial centers.

## Data & technology

Forward-thinking firms are making the investment in the required tools and technology to streamline the stewardship process. At a minimum firms require adequate data storage for the ever-increasing quantity of data that supports the process, including both internal data capture and external ESG data such as voting records from Institutional Shareholder Services (ISS) and Glass, Lewis & Co. (Glass Lewis). A key differentiator is the ability to draw out insights from this data set to support decision-making and provide the audit trail for how decisions were reached. A range of off-the-shelf solutions

offer these data and analytic capabilities. However, some firms are looking at bespoke solutions that offer greater flexibility, as well as integration with other proprietary ESG solutions. For any tool to effectively support the whole process, it ultimately needs to work for all stakeholders from front office to reporting functions and, hence, requires full consideration of present and future requirements.

All elements of the stewardship process need to be pulled together for reporting. In this respect, it is not just annual regulatory reporting that requires a large degree of input, but also institutional client reports and even content for client requests for proposals (RFPs). This requirement for qualitative content can strain already stretched resources and will necessitate greater process efficiency.

While most firms have applied tactical solutions to get over the line with the initial tranche of enhanced stewardship reporting, it is now time to focus on how this can evolve into a production line for future reporting. Technology is a key enabler; centralized data management and targeted automation can bring efficiencies once content is developed and standardized. However, short-term process efficiencies can be driven

by defining clear roles and responsibilities across all teams involved in content creation. In this regard, workflow tools can bring immediate benefits and ensure ownership over all aspects of report production. One further option is to outsource reporting; while there is still a reliance on providing key inputs, the heavy lifting involved in report creation, production and quality assurance can be provided by a third-party. The range of options in this space is increasing.

## CONCLUSION

Having been on the back foot in recent years in the face of client and regulatory demands, the modern stewardship function requires adaptation to become a highly efficient machine. As a core component of regulators' drive to industrialize corporate ESG engagement – and a core component of meeting net-zero transition plans – active ownership will only increase in importance. To this end, an effective modern stewardship function will require technology enablement, adequate knowledge and specialism within personnel, and enhanced collaboration both internally and externally to ensure it is driving the right outcomes.

## TO THE POINT

- Stewardship has grown in importance due to its central role in the sustainable finance agenda and net zero transition, which has brought greater scrutiny on stewardship activities from clients, regulators, and other interested parties.
- New reporting frameworks have driven a higher standard of reporting which includes a greater focus on the outcome of engagement activity.
- The function plays an important role in reflecting an investment firm's view on key ESG topics.
- In order to adapt to enhanced requirements, investment firms are making strategic investments in people, data and technology, as well as reevaluating the organizational structure that supports stewardship activities.



# Webinars

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- **1 March 2023**  
Distribution and Product lifecycle management – The ManCo as a key stakeholder!
- **5 April 2023**  
Digital processes for improving the evaluation and monitoring of risk
- **19 April 2023**  
Principles for sound Liquidity Risk Management and Supervision

### Sustainability:

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- **11 January 2023**  
ESG Disclosure and data challenge
- **7 June 2023**  
Sustainable Investment - What is the impact of your portfolio on the real world?

### Technology & Innovation:

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- **9 November 2022**  
Technology and data to enhance AML/CTF and fraud risk management
- **27 April 2023**  
ManCo Tech: This time it is for real!

.....  
For access to the sessions do not hesitate to contact [deloittelearn@deloitte.lu](mailto:deloittelearn@deloitte.lu)

Dates and detailed agendas available here:  
<http://www.deloitte.com/lu/lunch-n-learn>  
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