

## Navigating through the complex world of ESG data: How do asset managers collect and use ESG data?

ESG data is information on the key environmental, social and governance factors that measure the sustainability of a company. While most companies make only limited disclosures on ESG matters and too often only due to regulatory requirements, there are large numbers of third-party providers offering ESG ratings and data services upon which investors can make informed decisions.

The assimilation of ESG information in investment processes has added a new dimension to the buy side and while this has resulted in a new and ever increasing market for ESG data it can be challenging to select from amongst the data offerings, as the consistency and quality of underlying data can vary. Wherever possible, asset managers tend to build internal teams to collect and analyze company data, including ESG data, to make informed decisions. Some asset managers choose to buy data from external vendors and employ internal systems that process and interpret external data, to manage inconsistency in the data.

Among the 123 LuxFLAG ESG labelled products, which represent over 60 billion euros of assets under management, the origin of ESG data employed for the labelled products is 41% partially external, 33% fully external and 26% internal.

Internal sourcing of data refers to an asset manager with an established in-house ESG research team and internal processes, allowing the asset manager to come up with their own ESG ratings for companies and countries.

Partially external sourcing of data indicates an asset manager using external ESG data providers to add data to its internal ESG database and for investment decision making. Nevertheless, external ESG data is not decisive.

Fully external data sourcing is undertaken by asset managers who rely entirely on the ESG data of external providers.

We note that asset managers that apply their own ESG analysis/decisions ("internal sourcing of data"), all have an established and large ESG team working closely with the investment team. Finally, as the market evolves, we expect that both quality and consistency of ESG data provided, as well as the source and use of ESG data by asset managers will also continue to evolve.

Origin of ESG Data

