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Some elements of ESG investment are easy to agree on. Others, such as policies that align themselves with a political cause or religion, present complicated challenges and are unlikely to win universal support

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BDS. Three letters that are fraught with as much nuance, complexity and contention as any idea in or around the ESG firmament.

According to the Palestinian BDS National Committee, it stands for 'Boycott, Divestment, Sanctions' – a non-violent movement targeting action over apartheid, human rights violations, property rights and other concerns in the remaining occupied territories from the Six-Day War (1967), as well as in Israel proper. BDS has modeled much of its activism and engagement on the anti-apartheid campaign in South Africa, which culminated in the end of institutionalized apartheid in the early 1990s. But there is, of course, a counter narrative too. Some US states have enacted anti-BDS legislation in an attempt to stop individuals from supporting the boycott.

What is interesting from an ESG perspective is that socially responsible investing (SRI) has very firm roots in the legacy of corporate action – boycotts and divestments – to bring about change in South Africa. Does BDS therefore automatically have a place in core ESG policy, and has it been incorporated directly into investment processes?

The answer to that question points to an underlying structural change in the SRI/ESG market, with portfolio management moving away from exclusion list-driven investing and toward a more holistic and inclusive approach. In an informal canvas of managers, BDS was typically thought of alongside the lists and policies of other philosophical and religious movements – essentially meaning that it is considered an exception to standard ESG practices.

Without drawing any equivalency with BDS itself, these might include the so-called 'Bishops' list' from the US Conference of Catholic Bishops, the 'Friends' list' from the Quaker community or Sharia-compliant lists from the Muslim community. Over time, these lists have influenced ESG policy in areas such as weaponry and human trafficking, but while they may selectively incorporate certain ESG factors, they are not explicitly organized around a comprehensive environmental, social and governance policy.

BRINGING BDS ON BOARD

So has BDS been incorporated? Yes, in the sense that most separate account managers that permit client-directed restrictions may accept a BDS policy if it is compatible with the investment strategies themselves. But when it comes to shaping the strategies and products that are broadly distributed, adopting the BDS framework in its entirety appears to be the exception rather than the rule. Market demand has been neither consistent nor comprehensive from either asset owners or their advisors.

Joe Keefe, president of Impax Asset Management, said that 'We haven't heard about this from any financial advisors...' If BDS rose to the level of a systematic consideration, he said, it would be brought to the firm's Sustainability Policy Committee for evaluation.

Other asset managers address policies like BDS through their existing processes. Kenneth St. Amand, client portfolio manager for Mirova, the ESG boutique of French asset manager Natixis Investment Managers, indicated that Mirova would accept institutional divestment mandates such as the Bishops' list, BDS and others, but added that for market strategies, 'It is very difficult [for Mirova] to take a position, particularly on something that specific.'

Rather than being reactive to these policies, Mirova adheres to its investment process, which is tied to the 17 UN Sustainable Development Goals (SDGs). If a concern raised about a given company in the light of BDS intersects with the SDGs, it will be addressed in that context and that context alone.

A CLOSER LOOK

Managers may instead take a more explicit systems-level approach to the question, addressing issues of involvement fundamentally, company by company, through the lens of their ESG processes.

Sonia Kowal, president of Zevin Asset Management, said that the firm does not typically adopt the BDS list or an Israel screen, particularly because it does not typically exclude companies for incidental contact with a certain issue or geography. Zevin will instead exclude enterprises engaged in intrinsically destructive activities that can only be changed by political action, since those companies will not voluntarily go out of business in response to shareholder pressure. For example, exclusion will be considered for companies providing material support to repressive regimes or operating in conflict zones where there is a systematic disregard for human rights. By contrast, companies that are involved in a relatively benign way such as being headquartered in or simply operating in a conflict zone are not automatically excluded and are only removed if they actively contribute to the conflict or human rights violations.

Kowal explains that there are no specific thresholds for what constitutes involvement; the assessment must be fundamental and, to a certain extent, subjective. In critical areas of interest, Zevin also uses its deep engagement model as a lever to bring about change and will tend to favor companies that have a commitment to improvement in those areas.

While ESG managers will not necessarily incorporate every issue from every list – and certainly not if those issues do not intersect with accepted frameworks such as the UN SDGs – there are clearly some systematic practices in place to ensure that portfolio managers comprehensively address human rights and human dignity globally. This should give asset owners some comfort. ■