

# TRENDS IN RISK MANAGEMENT AND THE EVOLVING PRACTICE OF ESG INVESTING

**Debra Baker, Head, Global Risk Solutions, Asset Servicing, BNY Mellon**  
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**Debra Baker:** As we move through 2015, we're excited to see that the laser-like focus on risk management continues. We had several themes that came out of 2014 in a post-crisis environment. This flight to alternative structures. Things like moving into hedge funds, private equities, commodities, real estate. A recent survey with some of our clients, especially the asset owners, has said that they will continue to invest in those asset classes and asset structures.

We also have this sustained regulatory environment. And so our clients need interpretation, reporting, and tools to help understand and make sure that they are adhering to the new guidelines.

We also had a theme around "the bar has been raised" for the skillset of individuals in risk management. So, the nomenclature has changed around the skillset required in this new frontier of risk management, and more importantly, the responsibilities have changed.

There is also this need around making sure we get to the transparency issues that our clients desire. So, we need to act as advocates for our clients, and stand shoulder-to-shoulder and understand that we have a voice.

Last year, we did this paper called "New Frontiers of Risk" with Dr. Harry Markowitz. And we had many themes that came out of that paper, but one of the taglines that did get a lot of attention was "no more chasing alpha." That basically was a direct correlation to the need to be more diversified.

Now, this conversation has continued and expanded, and we have clients in conversations around investing, what we call ESG Investing, which is investing on behalf of environmental, social, and corporate governance changes. So, imagine moving capital dollars to companies where you know you can have a social impact. That is pretty phenomenal.

We sit as one of the largest investments companies of the world. We have our investment management franchise, as well as our investment services franchise, and so we also understand this problem from an issuer standpoint, from an investment management standpoint and from a service provider standpoint.



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We will take a position that we will establish what we're calling a Social Finance program and we're going to engage the academics, such as the University of Cambridge. They will come in and actually help us look at that issue of materiality. And we're also going to bring our friend back, Dr. Harry Markowitz, to sit on an advisory panel to really understand the issues of when you're investing for social consciousness. Are you better off, worse off, or neutral?

We will have more thought leadership, we're planning to rollout the end of this year as it relates to ESG investing, and we look forward to sharing our insights with you.

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