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New Investment Manager Radiant Has ESG In Its DNA

Heidi Ridley

Kathryn McDonald

For RadiantESG, incorporating environmental, social and governance factors into its investment process is part of the firm's DNA.

The women-led firm was founded by Heidi Ridley and Kathryn McDonald, who both worked together at Rosenberg Equities, where Ridley served as ceo and McDonald served as head of sustainable investing, leading the firm's ESG and impact research effort.

That work resulted in creating an approach to ESG investing that looks to assess the positive impact companies have within an investment process rather than as a negative screening tool.

"If it's a good idea, it shouldn't just be, 'here's the suite of ESG products over here, then here's the rest of it," said McDonald, who first began working on ESG datasets around 2006 and launched Rosenberg's first ESG integrated strategy in 2014 that was ultimately incorporated into the firm's entire investment process. "Either it is accretive to our investment ideas or it isn't. And we decided that it definitely was."

Ridley explained that many firms have started down the ESG road by excluding companies that clients did not want to invest in.

"For us, that is more embedding client values into a customized strategy … we view that as distinctly different than ESG. There are many firms that started that way and are trying to transition and I think that can get kind of murky … so we view them as two totally different things. Not right or wrong, just different," she said.

The firm launched in July 2021 with the financial backing of HSBC Asset Management and the founders seeded the U.S. small-cap equity strategy at the start of 2022.

"We felt that it was important for us to seed our own portfolio, at least the first one, and demonstrate that we believe in ourselves with conviction in what we're able to do," Ridley said.

That conviction is built around three proprietary lenses that aim to evaluate companies through an impact mindset.

The firm has built a data platform, ESG Mosaic, that brings in granular raw data from various providers to evaluate companies.

"It's called a mosaic very purposefully. The mosaic concept recognizes that we will never have perfect information about any company. We will never have all these pieces full for every company. So what we need to do is mosaic theory our way into a place where we can say, 'I think I really have a very good understanding of the threats and opportunities that are facing this company,'" McDonald said.

The firm also uses this data to go beyond what others are saying about a company and looks to build its own understanding of a firm's efforts around ESG.

"We have started developing our own metric that is called 'Credible Intent,' which is our way of assessing how believable ESG statements are that companies are making," McDonald explained.

The third lens is the firm's Positive Change Model, which looks to identify companies that are ESG leaders today, companies that are evolving from an ESG perspective and finally companies that are impact leaders.

"Knowing these three views about a company and knowing what the fundamental more traditional financial statement information tells us, we look at all of that combined and say, if our goal is to build a portfolio that only have strong fundamental characteristics and strong ESG characteristics, which are the companies that tick the most number of boxes and these different views we have, that is the beginning of a portfolio," McDonald said.

"The central challenge to us as investors is to predict the future and most of the information that we have had to work with from companies is notoriously short horizon-ed and if we think about the challenges that face companies, ourselves, our society, our economy, the environment, those are things that will pay out over very different horizons and ESG and impact are all part of that. So if we're really trying to get this comprehensive view of how is the management of this company positioning the company this company for the future, we absolutely have to ask and answer some difficult questions that are not really appropriately represented on financial statements," McDonald added.

The small-cap strategy will typically have between 80 and 100 holdings and is built using an alpha-only optimization and then a traditional quadratic optimization that results in a well-diversified portfolio of high conviction companies. The portfolio won't hold more than 3% in a given name and has a maximum 8% active sector exposure relative to the benchmark.

The firm's approach has already garnered interest from the investment community. The firm was recently appointed as the sub-advisor for a U.S. small-cap growth equity fund with HSBC. The HSBC RadiantESG U.S. Smaller Companies Fund has approximately $30 million in assets.

"Having gone through a very rigorous process and being approved by an independent board … we are very encouraged by that. We are excited to certainly have a vehicle that investors can access. In particular, we think that financial advisors and wealth managers have not had access to more robust investment strategies," Ridley said.

As ESG investing continues to evolve and comes under greater scrutiny from investors and regulators, the Radiant team believes its approach will win out.

"We wanted to build something that goes beyond box ticking, goes beyond summary scores and generic factors, goes beyond what has happened in the past or even today to really drive positive change and frankly deliver better outcomes for our clients," Ridley said.

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