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SUSTAINABLE & RESPONSIBLE INVESTMENT FORUM

ESG AND INVESTOR RELATIONS

BRIEFING NOTE PROVIDED BY

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ESG AND INVESTOR RELATIONS

It should not come as breaking news that investors are taking a growing interest in the environmental, social and governance (ESG) performance of the companies in which they invest.

The scrutiny is not only coming from the growing market of responsible investors; mainstream investors too are looking more closely at ESG and continue to look beyond short-term investment horizons to the creation of longer term shareholder value.

Issues like modern slavery, financial climate risk, energy transition, responsible tax practices and impact investment were simply not part of investors' vocabulary just a few years ago, but are commonly discussed today. And the way in which companies proactively respond to the ESG expectations of their investors has a positive correlation on the cost of capital.

Analysts expect this trend to accelerate as the socially-conscious generations who grew up with global challenges like climate change and runaway population growth begin to wield greater investment power.

So, now more than ever, it's critical for companies to engage with investors on ESG, and to shape their ESG messages to meet investors' expectations.
This briefing document is primarily targeted at Investor Relations (IR) teams to help them successfully target ESG messaging to current and prospective investors.

Understanding investors' expectations is an important task for management and the Board, it helps to guide management decisions on strategy and strategy related internal processes. But how should investors' ESG expectations be answered? Here are three steps for IR teams to begin with:

STEP ONE -
UNDERSTAND THE DEMAND.

It is difficult to meet expectations if you don't know what they are. Therefore, the first step is to clarify investors' expectations:

WHAT KIND OF ESG COMMITMENTS HAVE YOUR INVESTORS MADE? WHAT DO THEY EXCLUDE FROM THEIR INVESTMENT PORTFOLIOS AND WHAT DO THEY PREFER?

These can usually be found within a publically available ESG policy where investors outline their ESG commitments. Many are now signatories of the UN PRI and place particular emphasis on the UN Global Compact, the OECD Guidelines for Multinational Enterprises and other international norms.

Additionally, investors use responsible investment approaches such as exclusions, positive screening and thematic investments to implement responsible investment.

WHAT ESG PERFORMANCE INDICATORS DO THEY CONSIDER ESSENTIAL IN YOUR SECTOR IN TERMS OF RETURN ON INVESTMENT?

Ensuring that your company aligns with the ESG criteria of investors is vital. Sometimes investors will tell you what they require or to which reporting indices/guidance they want you to align to. For example, investors are increasingly asking for companies to have incorporated climate into their business strategy and inclusion in selected indices e.g. DJSI, and alignment with UN Global Compact.

If your investors or the investors you want are signatories to the UNPRI you will also be able to find more information on their priorities and approaches through the UNPRI submissions available through the website.

DO YOU HAVE THE SAME UNDERSTANDING OF THE RELEVANT ESG CRITERIA AND DO YOU MEASURE THEM?

Like financial reporting, sustainability reporting is directed by the application of reporting principles. The principle of materiality in ESG refers to "the threshold at which ESG issues become sufficiently important to investors and other stakeholders that they should be reported."
IR professionals should primarily focus on these, especially given limited time and resources.
If the sustainability team has already conducted a materiality assessment, IR should be conversant in the material issues, since these will/should be of most interest to investors.

It is important to remember that investors are particularly interested in reading about the outcome / impact of their "investments"; for example how much CO_2 emissions the company has avoided.

STEP TWO -
UNDERSTAND THE SUPPLY.

Next, you should articulate the inputs to your companies business model (which capitals it uses e.g. human, intellectual, natural, manufactured, financial and social) and what your strengths and weaknesses are in these areas:

ARE THE ESG FACTORS PART OF YOUR VALUE CREATION STORY AND DO YOU SHOW THAT YOU ARE MANAGING ESG RISKS?

Governance of ESG within a business is often the primary indicator of whether a business takes sustainability and ESG seriously. Investors may ask you the question, what is the role and commitment of corporate management and the Board of Directors to environmental and social issues? GRI provides good guidance on management indicators and presenting good governance of non-financial topics. Leading businesses have developed a profile for ESG management and increasingly link senior management remuneration to ESG performance indicators.

DO YOU MEET THE CRITERIA FOR KEY ESG FUNDS?

If you are targeting specific ESG funds for your sector the criteria for investment will be clearly stated in their mandate. For example, alignment to the UN Sustainable Development Goals (SDGs), renewables, forestry etc.

DO YOU HAVE ACCESS TO SUSTAINABILITY INDICES AND WHICH SHOULD YOU FOCUS ON?

A confusing array of ESG investment indices and rankings has emerged in recent years. Responding to these data requests can be time-consuming for IR teams. First you should identify the indices and ratings with the most influence on your investor base and then over time improve performance in the key ESG indices and rankings. The best known services are MSCI ESG Research, RobecoSAM Group, Bloomberg, Thomson Reuters, Sustainalytics and ISS’s E&S QualityScore.

Alongside the questions above it is also important to consider how your peers in the same sector manage ESG communications to investors.

STEP THREE -
TARGETED MESSAGING.

By understanding the demand and supply of ESG information for investors you can better determine how and where to respond. Responding to the questions below will become easier once you have addressed steps one and two:

WHERE DO INVESTORS AND ASSET MANAGERS GET THEIR INFORMATION FOR YOUR COMPANY?

ARE YOU ON THE RADAR OF RESPONSIBLE INVESTORS AND FUNDS? DO YOU WANT TO BE?

ARE YOUR CURRENT AND POTENTIAL INVESTORS ABLE TO FIND THE ESG INFORMATION THEY NEED FOR THEIR DECISION MAKING?

WHICH POTENTIAL INVESTORS SHOULD YOU BE TARGETING?

ARE YOU TALKING IN THE INVESTORS' ESG LANGUAGE AND ARE YOU REPORTING INFORMATION THAT SERVES BOTH INVESTOR DECISION-MAKING AND YOUR CAPITAL COST?

These questions, as well as those presented in the first and second steps, are critical. Especially since the capital market is a key channel for most companies value creation, in addition to the product and service markets. Finally, while it is imperative for investors to understand the ESG risks, it is equally important to appreciate that there are also opportunities associated with understanding and managing ESG factors successfully.

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