

# INVESTOR RELATIONS VIEW



## Keeping pace with ESG Your need-to-know guide

February 2020



# QUALITY AND EXPERIENCE COMES AS STANDARD

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Our focus is to provide clients with a suite of products and services that enable them to maximise the opportunity of public ownership, and to reap the benefits of good investor relations.

We identify and track our clients' shareholders, as well as their behaviour, using either local ownership disclosure provisions or our own proprietary methodologies, which include leveraging our extensive global relationships with custodians and investors.

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Together we work on sophisticated analytical and shareholder support campaigns, providing our clients with combined solutions that consistently deliver successful results.

Both Orient Capital and D.F. King Ltd are members of ASX-listed Link Group, a leading global administrator of financial ownership data within the pension fund industry and across corporate markets. Our corporate markets capabilities include register, employee share plans, investor relations and stakeholder management. We operate from offices in 18 countries throughout Europe, Africa, the Middle East and Asia Pacific.

We are passionate about setting and being 'The Standard' in our fields of expertise.

Introduction	3	
OC Research	Your company and ESG	4
EXPERT VIEW	The Award Winner	6
OC Research	The importance of ESG	9
EXPERT VIEW	The Responsible Investor	11
EXPERT VIEW	The Impact Investor	15
OC Research	ESG Considerations	17
EXPERT VIEW	The Regulatory Perspective	20
OC Research	How seriously are you taking ESG?	22
EXPERT VIEW	The Issuer Advocate	25
EXPERT VIEW	The Governance Proponent	29
Summary	32	
Glossary	33	
Methodology	35	

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As we turn the page on 2019 and consider the new decade, there is a topic which seems to be everywhere and on everyone's minds: ESG.

We live in a world where, over the last decade, we have seen targeted quotas for the inclusion of women on boards. We've seen the #metoo movement gain prominence, extreme weather events blamed on climate change, extinction rebellion taking over city streets, and school children protesting for change.

We have to pay attention to factors that drive into the heart of corporate purpose.

E (environmental) and S (social) awareness/reporting have become just as important as the day-to-day G (governance) within the companies we work for and support.

How are you tackling it? Do you know what other companies are doing? Is it becoming a theme you cannot ignore but do not quite know how to address? How do you ensure your board are taking it seriously?

Over the past few months, we challenged our intelligence team to come up with a research piece that helps you understand the subject, and gives you some ideas on how companies are tackling it. To do this, we interviewed over 100 people, from the UK, Europe and Asia Pacific.

Our findings have been wide and varied. Some companies are already on board, actively reporting on ESG and measuring its effectiveness in their company. Some just aren't.

The Australian companies we spoke to, likely against a landscape of mining and extractive industries, have been on top of this for some time. UK corporates are later adopters of clear, proactive communication on these subjects.

The contrast is loud and clear in how much companies are having to report across sectors, and how different the requirements can be from one ratings agency to another.

There still lacks a 'holy grail' that translates ESG metrics into financial reporting standards. The metrics need to be standardised globally to support the effort required by companies to respond to the call.

Alongside our annual research in this year's report, we are pleased to have expert views from across the investor universe and corporate world. We would like to thank everyone who took part in our research and our guest experts for their contribution.

A handwritten signature in black ink that reads "Alison Owers".

**Alison Owers**

CEO, EMEA & Director,

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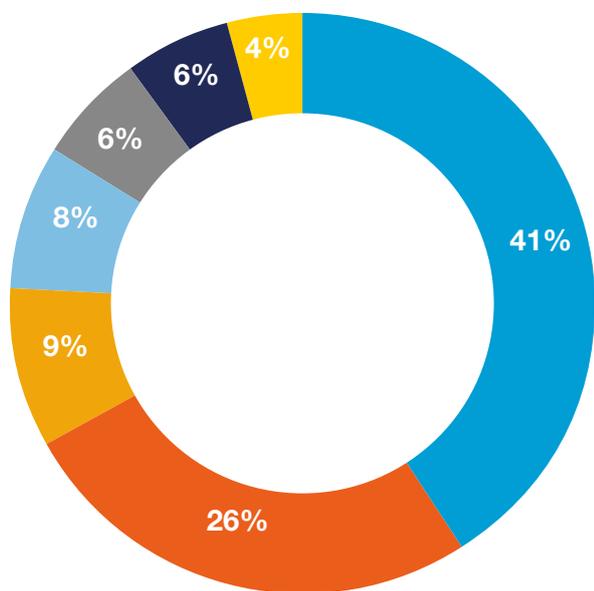
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## Who manages ESG in your company?

Over a third of total respondents and 41% of all surveyed Investor Relations Officer (IROs) confirmed they cover questions around ESG from investors solely within the IR team.

ESG company support



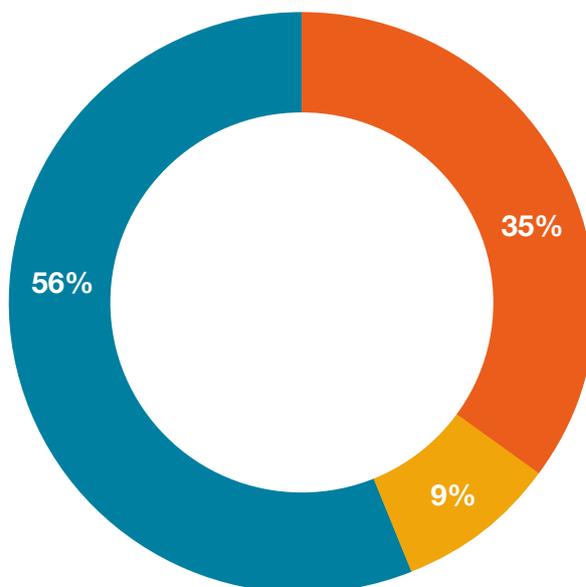
- IR team only
- IR & Head of Sustainability
- No dedicated ESG team
- IR and CoSec
- IR & Comms
- IR & Board
- IR & CEO / CFO

Half of respondents said they support ESG requirements in conjunction with at least one more team member, from the sustainability team to management, the company secretary and even the board. Almost 10% of those interviewed don't have anyone in the business dedicated to dealing with ESG... yet.

## Are you the main interaction point on ESG with investors?

A third of those surveyed are, unsurprisingly due to the nature of their role, IRO's who are taking the lead on liaising with investors regarding ESG. For those who are not dealing with this directly or dealing with it alongside another area of the business, the sustainability team are leading the majority of efforts.

The ESG change effect

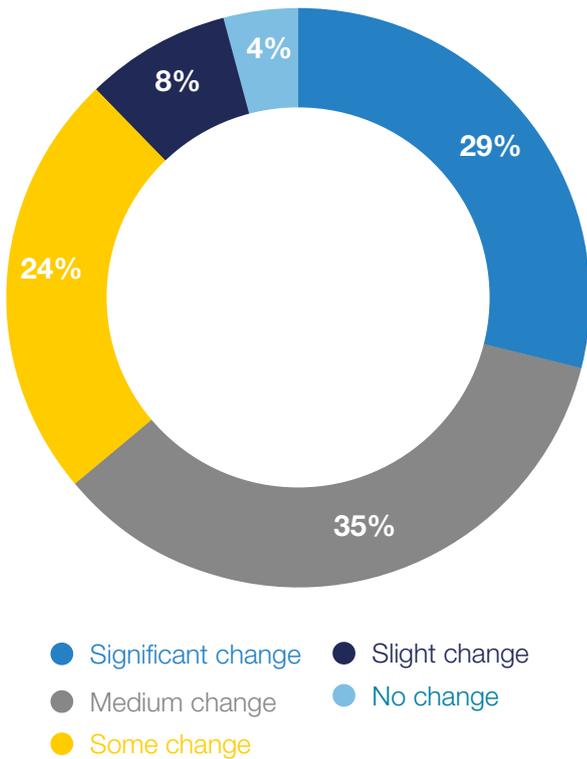


- Yes
- No
- Yes, with someone else

As you might expect, as the ESG topic has become more mainstream, so has its impact on the IR teams we interviewed. This is further confirmed by the number of teams who have already, or are starting to, recruit dedicated ESG analysts to join the IR teams. This is partly to deal with the volume of queries but also to evolve the role into an in-house specialist who can respond in the best way to investor queries.

**Over the last 3 years, how much has your role evolved to incorporate ESG?**

**The ESG change effect**



“We are working to educate ourselves in the sustainability efforts required, such that our strategy, progress and targets are clear to the entire IR team, enabling our IR Director to articulate sustainability alongside financial performance to investors.”

**Asia, Investor Relation Officer**

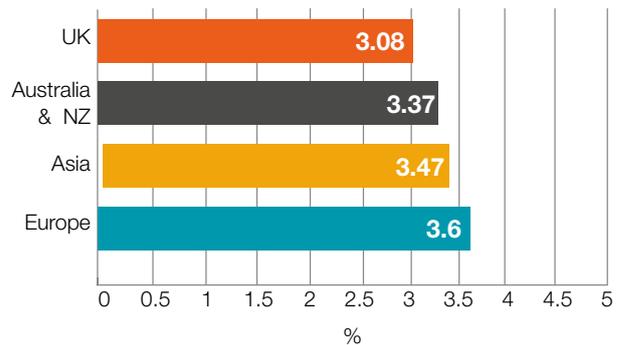
More than two thirds of those surveyed indicated that ESG and its requirements have meant a significant to medium change to the role over the last three years. In every region surveyed, over 90% agreed they had seen a change in their role to incorporate ESG.

**How well do you think your company scores on ESG?**

When asking how companies would rate their own ESG performance, we looked at geographical differences, with 1 reflecting ‘very bad’ to 5 ‘very good’. Europe, with an average of 3.6 out of 5, were most confident in their own companies’ ESG performance. The UK was less self-assured, rating themselves 3.08 out of 5.

Australia & New Zealand and Asia were broadly in line, but none of the geographies rated themselves as ‘very good’. With survey results ranging from 3.06 to 3.6 worldwide, companies see room for improvement on ESG.

**Assessment of your own ESG performance, 1 not clear to 5 very clear**



“Improvements will come when ESG performance is more measurable (i.e. more relevant data rather than anecdotal information is collected) and audited externally, and when the external indices are more consistent or coordinated.”

**UK, Company Secretary**



### **Nigel Lockwood**

Head of Government Relations & Corporate Responsibility, G4S plc

#### **What do you believe is the driving force behind the ever-increasing attention on ESG? Mitigation of risk? A demand for ethical business? Political pressure?**

I believe that it's a combination of each of those.

Interest and awareness of ESG matters has certainly grown amongst our core stakeholder groups over the past five years or so, and that trend is only increasing. That driving force can be interpreted as people, whether they are an investor, a customer or an employee who wants to be linked to companies that behave responsibly and have a positive impact on the planet and society.

Companies that have a poor attitude to ESG matters, such as human rights or climate change, will often be the ones that sooner or later face difficult operational and financial challenges. To be successful and sustainable (in all senses), a business must understand the importance of these issues and act upon them.

#### **Does ESG influence investors in your organisation?**

Initially it was only a few socially focused funds that were concerned about ESG matters, but that has now broadened out to cover a much wider array of funds and analyst types.

Once upon a time, we were often only asked about the existence of a policy. Without a doubt we now receive more frequent and complex requests for information. These come from ESG rating agencies, as well as direct questions from analysts concerning ESG related issues. These might be linked to media coverage or to a specific report. Or they may relate to a particular subject area of interest to the analyst who seeks to understand the background, context, progress and commitment to that issue.

#### **How are you and your colleagues in IR working to be more prepared for ESG?**

At G4S, I am responsible for embedding social responsibility into the group's standards and business practices, advising senior leadership on a range of CSR and ESG matters, and engaging with key stakeholders to promote G4S's social and ethical credentials, whether that be through direct communication or third-party ESG reporting channels.

Key to this is understanding the material aspects of CSR relevant to G4S and monitoring the developments which could present a risk or an opportunity for the company to demonstrate sustainable development. To do this, we regularly undertake an exercise to identify the group's material CSR priorities (currently safety, human rights, anti-corruption). We engage with organisations, such as the UN Global Compact, to help appreciate CSR trends and best practice.

In the course of this work, I support my colleague Helen Parris, G4S's Director of Investor Relations, in conveying our CSR progress to the company's IR audiences. Where possible, we review existing communication with the analyst to assess the ESG issues they are interested in and incorporate these into our preparations. As a

global security company there are challenges, but wherever possible we aim to be as transparent as we can in our communication with ESG analysts.

Usually our initial dialogue will begin by providing them with the context surrounding any issues that they may be concerned with. This is particularly helpful where the analyst may have only seen coverage of an issue in the media. Beyond that, we can provide additional information, such as operational practices, performance indicators, access to management and links to independent reporting.

Where an analyst has expressed a particular interest in the G4S's managed prisons and detention centres, we regularly host visits to these facilities to allow analysts to see for themselves. They can speak to our staff and some of those in our care.

### **If you had to name just one, what widespread ESG practice do you see as the most challenging to deal with?**

With ESG reporting, I think that a key challenge for us is the complexity of the organisation and the issues we are dealing with. Firstly there is the need to understand the operational practices, and confirm the data and facts relevant to a particular issue. Then we can communicate clearly in our reporting or dialogue with an ESG analyst.

That can sometimes be tricky. G4S is a global security company and despite our aim to be as transparent as possible, the level of information we can share can often be restricted.

### **With regards to E, S and G which ones for your company are the most important to be thinking about?**

For us at G4S, I would have to say that S is the most important, with strong support from G.

Our engagement with a broad range of stakeholders has clearly identified that our ESG priorities are social matters.

We are a global security company, with over half a million employees working in potentially dangerous environments to protect people and valuables. The safety of those employees and those in our care is paramount – our goal is zero harm.

In certain environments, security forces may present a risk to human rights, so ensuring that these are respected and protected by G4S, and those who are employed by the company is a high priority. Clearly with such a large workforce, labour rights are also an important issue for us.

Governance supports a lot of this. In the sectors where we work, the social impact from our policies and standards not being met may potentially be high, or at least high profile. It is therefore essential that we have good governance in place to oversee and ensure that our standards are being met, in order to mitigate any risk. Alongside this, it can help us to realise possibilities, such as the Sustainable Development Goals. For example, we can help to develop and create safe areas where business and economic growth can occur.

“Last year, we continued to focus on embedding CSR throughout the Annual Report, describing how social responsibility issues are integrated into our business strategy. We feature case studies which reference the Sustainable Development Goals... demonstrating that CSR is not a separate consideration, but part of our core operations.”

With E, we are conscious of climate change and are working to reduce our environmental impact, particularly our consumption of fossil fuels. However, feedback from stakeholders indicates that this should be less of a core priority than other matters because our main service is the provision of security officers – people supported by technology who are based within the premises of our customers.

### **How have boards evolved to manage ESG differently to a decade ago?**

From a CSR perspective, the level of focus and interaction has grown extensively over the last decade.

At G4S, we have had a board-level CSR committee in place for a number of years. The committee comprises executive and non-executive members, and is a forum to question and challenge on particular issues. It is supported by KPIs set to challenge us, so we strive to do better.

### **G4S recently won the UK IR Society Best Practice Award for Most effective integration of ESG (FTSE250). Do you have any tips on what you are doing that made you stand out to the judges?**

Thank you – we were very proud that our communication efforts have been recognised and to win the award. We’ve been reporting on our CSR activity for over a decade and have integrated our sustainability reporting into the company’s annual report since 2017.

Last year, we continued to focus on embedding CSR throughout the report and, crucially, describe how we integrate social responsibility issues into G4S’s business strategy. We feature case studies which reference the Sustainable Development Goals that we help to realise, demonstrating that CSR is not a separate consideration, but part of our core operations.

The judges commended how we have embedded sustainability communication into the company’s strategy, as well as our description of the realities we face as a company along with the clearly identified risks.

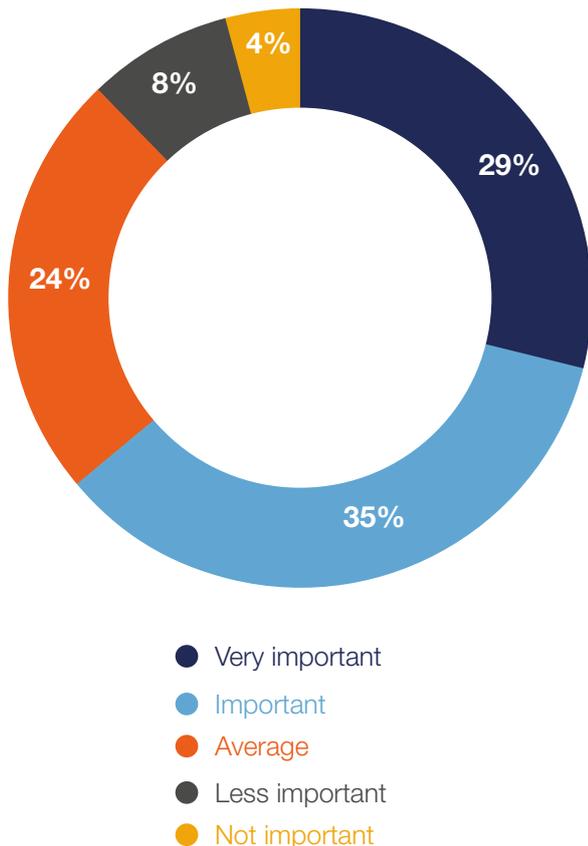
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### **Nigel Lockwood**

Nigel Lockwood is the Head of Government Relations and Corporate Responsibility for G4S plc, the world’s leading private security company with operations in over 90 countries and employing more than half a million people. With his team, Nigel is tasked with understanding the regulatory and business environments in which the Group operates, embedding social responsibility into everyday business practices and promoting G4S’s social and ethical credentials. Since 2013, Nigel has also been an Advisory Group and Board Member of the UN Global Compact (UK Network), which helps companies to identify sustainability challenges and opportunities, provide practical guidance for action, and promote action in support of the broader UN goals.

## How important is ESG within your role?

The importance of ESG



Over 60% of survey respondents said ESG is an important part of their role. Australian & New Zealand participants ranked the highest out of all those surveyed, seeing ESG as very important. This was followed by the UK and Europe. Asia came in last place, with the majority seeing it as less or not important.

“Translating a complex business model with unique ESG footprint into the “tick-the-box” analyst world and translating this into the strategy is a core focus.”

**Europe, Investor Relations Officer**

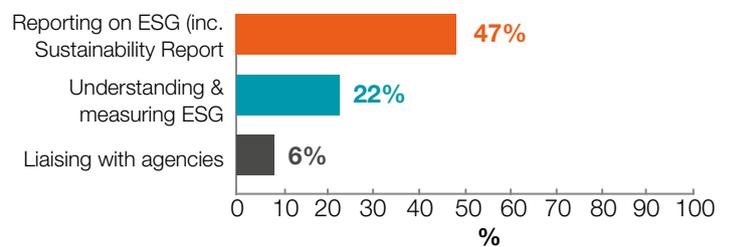
## Core ESG responsibilities

Close to half of those surveyed, 47% said reporting on ESG (including sustainability reporting) is the most important part of their role and their company’s focus in relation to ESG. The main theme raised was the ability to demonstrate an understanding of the measurability and implementation of their key ESG objectives.

This was followed by around 22% stating that being able to articulate these and discuss the issues in detail, particularly around the intrinsic understanding of ESG metrics and where these are applied at the company level. This seems to be an additional requirement beyond simply completing a request for information on ESG.

6% raised the issue of misalignment of company goals versus the rating supplied by agencies.

Key ESG tasks

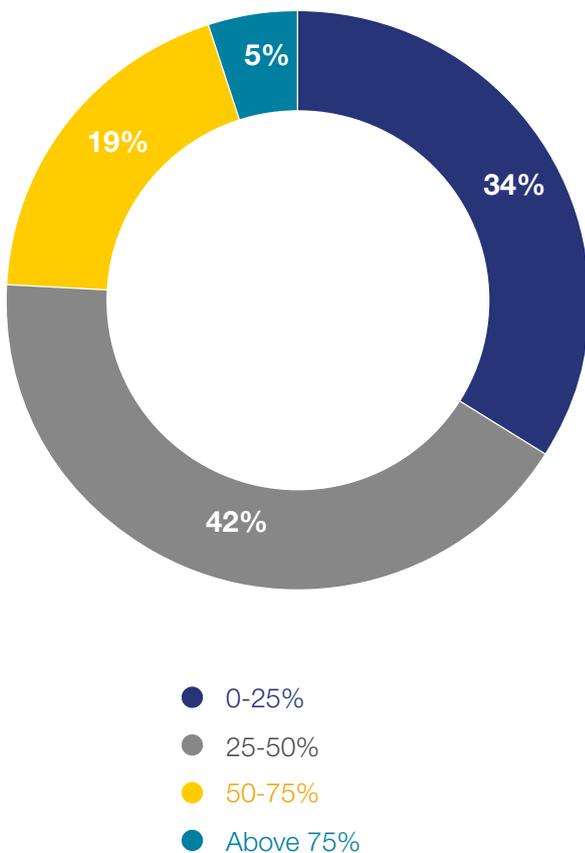


“We try and act as good corporate citizen through initiatives around employment, education and environmental sustainability.”

**Australia, Investor Relations Officer**

## Are buy-side investors taking ESG into account?

### Buy-side investors reviewing ESG scorecards



Over half of those surveyed said up to half of all investors they deal with reference ESG score cards before making an investment decision. This reflects that ESG is not quite a mainstream view or requirement and would mirror the anecdotal feedback (listed as a key takeaway for 2020 in our D.F. King General Meeting Season Review <sup>1</sup> in September 2019) that not all investors are taking ESG into account.

We expect this trend to change over time, but currently only 5% of those surveyed confirmed that over 75% of the investors they interact with are taking ESG score cards into consideration.

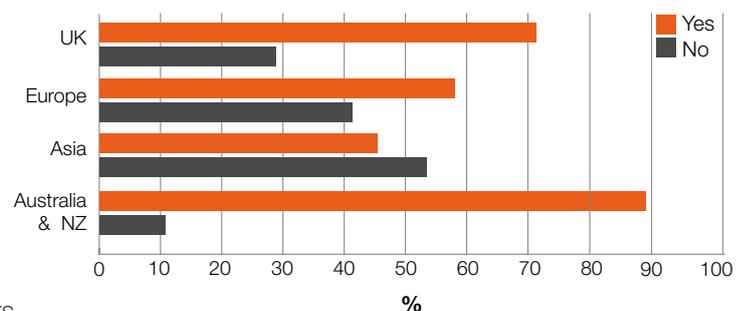
## Board diversity - an important topic for investors

According to a recent Company Matters report on Board Diversity<sup>2</sup>, there has been an increase in expectations over the last few years for companies to report accurately and transparently on their board diversity policies. This ranges from how they meet targets (if at all) to how their nomination committees account for diversity in appointments.

Their report also reveals that major investors are now more likely to vote against re-election of the nomination committee chair if demonstrable progress isn't made. This is a trend we have observed in our support to companies around their AGMs.

When we explored this theme in our research, an overwhelming 69% of those surveyed said they believe investors see Board diversity as a priority. 71% of UK respondents and 89% of Australia & New Zealand respondents agree with this being a key theme, but the majority of respondents in Asia don't see Board diversity as a key factor.

### Is board diversity/important to investors?



“Governance is the top priority given my role, but I am closely involved in the communication of our ESG priorities and performance to key stakeholder groups, especially investors, board and senior management.”

**UK, Company Secretary**

<sup>1</sup> D.F. King – ‘General Meeting Season Review’ – September 2019

<sup>2</sup> Company Matters – ‘Board Diversity in AIM and FTSE Small Cap Companies’ – January 2020



## Irfan Patel

Responsible Investment Analyst, AXA Investment Managers

### **What do you believe is the driving force behind the ever increasing attention on Corporate Governance? The mitigation of risk? A demand for ethical business? Political pressure? Is the focus on ESG a natural extension of this?**

I think it's a little bit of everything.

There's a top-down regulatory drive from various industry bodies and governments. From the demand side, there's a drive from consumers and the real interest of citizens is changing over time. With increasing awareness around ESG topics – scandals, corporate failures, and environmental and social issues in the news – people are more aware of it, and this is driving demand-side push.

But there's also a regulatory push. Climate, for example, is a topic on the agenda for a number of regulatory bodies, governments, and other organisations. If you read the papers now, there's likely to be an article around corporate failure or something going wrong in the corporate environment.

There's also questions around how we, as investors, actively manage our investments and how we're holding these companies to account. ESG is not a 'new' idea or challenge. Increasingly, some of these topics, like environmental and social concerns, are no longer on the periphery or secondary to financial results or other topics discussed with companies. They're front and centre of the conversation.

### **Does good corporate governance drive investor returns?**

We see driving good corporate governance and ESG practice as achieving a 'win-win' of improving risk-adjusted returns. At the same time, this contributes to broader societal and environmental objectives. At AXA IM, we believe investors play a pivotal role in driving good ESG practices and we are committed active and long-term investors.

### **Are there any other elements of ESG that influence your investment strategy?**

Every active asset manager is looking at how to embed and integrate ESG into their investment strategy, and how to do that better. We're also seeing a drive to highlight how this is being done – not just for an asset manager or an asset owner's equity portfolio, but across all asset classes. We used to think about ESG and stewardship primarily in the equity space, but investors are now keen to highlight how they are working with companies on ESG topics regardless of asset class.

“The 2020s are the decade of transition, changes in the coming years will be critical in ensuring a positive future for both people and the planet.”

**If you had to name just one, what widespread ESG practice do you see as the most challenging?**

There are two related topics that present an interesting challenge. The first is the diversity of extra-financial reporting, with different stakeholders asking companies to report on extra financial metrics, objectives and KPIs. We’re seeing a wide range of how companies are reporting extra financial measures, how companies tell their stories, and how companies tell their shareholders and stakeholders the way they integrate ESG practices into how they operate.

On engagement, we have found there are a number of companies who have very good narratives and stories to tell, but it’s not coming across in their extra financial reporting or in the information they give to the market. So, I think the diversity of extra financial reporting needs to be looked at. We know this is a topic of conversation for a number of stakeholders at the moment.

There’s also the conversation around company corporate purpose, which we see mentioned in the UK Stewardship Code and in France’s PACTE Act. This doesn’t just define corporate purpose, but shows how companies actually align to it. Defining a corporate purpose may be straightforward. But we want companies to help us understand how their corporate purpose impacts how their employees are operating within the organisation and the entire value chain, and the impact that has on how the company sits in wider society.

**Climate change and diversity are the perennial E and S issues – what are your thoughts on that and why do you think they continue to drive headlines? And do you think that companies you observe are doing a good enough job addressing the ESG topics that are material to them?**

It goes back to the growing awareness of the question around purpose. It’s no longer primarily about fiduciary duty or shareholder returns. It’s how you set up as an organisation within society, including more discussions on environmental and social topics – which are increasingly relatable.

If you see some of the headlines about climate and environment in the last few years, events aren’t just happening somewhere far away, like small islands in the Pacific. They’re across the world, whether it’s severe weather like heatwaves and record-breaking temperatures, both high and low. They’re in Europe, North America or, like we have witnessed recently, in Australia.

Similarly with social topics, we see increasing importance placed on how companies think about human capital, diversity and worker rights. We can relate to these and understand why they’re driving the headlines.

We have noticed a trend in companies addressing E and S issues. I’d say companies and investors both are getting there. As asset managers, we should also embrace the spirit of activism, drive positive impact, and be more vocal on ESG issues.

### **Is that driven by you as an investor and the way you vote, or is that just through the dialogue?**

We believe it's a bit of both. I think companies have become better at understanding the need to discuss and show how they practice these topics. But I think this also comes from the stewardship, engagement and voting work that we, as an industry, have undertaken as responsible asset managers and asset owners. We're identifying material ESG factors and striving to engage companies on these before risks materialise, or how to capitalise on opportunities within ESG topics.

Companies are embracing these topics, not just as a secondary side issue but as a natural part of the conversations held at board and executive level, and across the business.

### **You mentioned earlier that 2020 is the decade of transition. How do you think this decade will evolve and what will be the key differences compared to the last decade?**

The last 10 years have been a tipping point, with responsible finance moving to centre stage. The responsibility to address and solve global environmental and social challenges has moved from the side-lines. We see the 2020s as the decade of transition across the environment, society and the government. Even the asset management industry is likely to evolve over the next few years.

Companies will have to actively demonstrate their journey and how they are transitioning to be successful as we shift towards a low carbon future. This creates challenges as well as opportunities.

We also think about how companies will manage transition across accelerated digitalisation and automation, and the impact this will have on employees in the next ten years. There is also the question of how companies address gender and social inequalities.

### **Do you think that boards evolved in the same way that the finance industry has, and do you think that they'll have the same kind of evolution that you're seeing in your industry?**

Boards are evolving over time. It's no longer just about sector within which a company operates. There's now a wider variety of considerations including experience, international experience, diversity of the candidate, diversity of the candidate's skillset, and the value that a director brings to a board. We've also consequently seen an increase in the number of hours dedicated to a board mandate, as well as companies producing matrix charts or providing detail about skillsets addressed by board directors or proposed nominees.

“The last 10 years have been a tipping point, with responsible finance moving to centre stage. The responsibility to address and solve global environmental and social challenges has moved from the side-lines”

Director elections used to be voted through in overwhelmingly large numbers, but there has been an increase in director dissent in recent years. Investors are using voting as a tool of dissent across a number of topic areas. This includes dissent over environmental concerns, lack of progress on gender diversity across a business, ongoing pay related concerns, and failure to respond to or address areas which investors have expressed concerns around.

### **Would you like to see legislators play a bigger or smaller role in bringing about governance such as the TCFD?**

There is definitely a role for regulators and legislators. There's a misplaced view that investors alone are the solution to many problems, but we sit as just one stakeholder in a vast list of stakeholders.

We have seen legislators play a powerful role in driving positive change, for instance with TCFD and climate, transparency and integrity of data with GDPR with the EU, and tax regulations in the US addressing tax inversion deals.

There's a difference of opinion in terms of how far legislators should go. Some companies we've spoken to say legislators should be delving in deep and providing appropriate guidance. Others say legislators should explain what the end goal should be and allow companies to innovate and develop how they reach it, so as not to stifle innovation and research & development within these companies.

### **How would you summarise your ESG vision?**

We see the 2020s as the decade of transition. Changes in the coming years will be critical in ensuring a positive future for both people and the planet. Ambitious goals on climate change, tackling biodiversity loss, addressing and ensuring sustainable development, whilst also ensuring ongoing global prosperity, is at the heart of our ESG vision for the 2020s.

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#### **Irfan Patel**

Irfan leads on corporate governance and voting activities at AXA Investment Managers since joining in 2017 as an analyst within the Responsible Investment team. He primarily focuses on engaging with companies on board related issues, shareholder rights, and executive compensation and voting at company general meetings. His key recent project includes integrating environmental and social concerns into the AXA IM global governance and voting policy. Irfan previously worked at Institutional Shareholder Services where he spent six years working on the implementation of client specific policies and producing governance research reports on companies within the Irish market. Irfan holds a degree in Economics from the University of London.



## **Frederik Kooij**

Chief Investment Officer, Tribe Impact Capital LLP

### **What do you believe is the driving force behind the ever increasing attention on Corporate Governance? The mitigation of risk? A demand for ethical business? Political pressure? Is the focus on ESG a natural extension of this?**

I see ESG as having been in the mainstream for around 10 years, but there are investors who have been thinking about this for much longer. I know of a fund founded more than 20 years ago with a strong emphasis on governance and they have generated phenomenal returns.

Corporate Governance sets the goals and corporate culture of a company, as well as creating long-term shareholder value. Within ESG, the G is the most intuitive and measurable. It's the linchpin for sustainable investing. Generally speaking, well-run companies will have fewer environmental and social issues. I see the G as an absolute necessity in establishing a framework for risk mitigation.

Embracing inclusion and diversity ensures the evolving requirements of employees and consumers are being met, and acknowledges the way society is progressing.

### **How is ESG influencing your investment strategy?**

Ultimately, we are a solutions-based investor and, while our strategy incorporates ESG metrics, we go further by ensuring the intentionality of every investment using the UN Sustainable Development Goals (UN SDGs) as a framework to guide our investments. Before any investment decision, we do an initial review of the main country indexes and research the companies that score well on ESG. But, again, it is only a small part of a much more involved process.

### **What is Active Investment? How do ESG themes relate to it?**

Active investing is unconstrained investing. Our approach is unconstrained in the sense that when we analyse investments, we are looking at how we feel they work towards delivering on the UN SDGs and within our AMI framework (Additionality, Materiality, Intentionality). This does mean that there are limited opportunities in the listed space in certain verticals, with financials and energy as the most obvious examples.

“I am certain that good corporate governance can be a key component in generating long term alpha for investors.”

**The Board composition debate has long focused on independence and more recently diversity – but we are noticing an increase in attention on the skills and experience around the table. How does this fit with what you are seeing, particularly around ESG?**

Diversity is important across the whole business landscape, and board composition is no different. It is key for businesses to minimise inconsistencies between their ultimate clients and those who make up their board.

**Is there an inherent contradiction between investor returns and good corporate governance in relation to ESG?**

Categorically not. The more I think about the theme, the more I am certain that good corporate governance can be a key component in generating long term alpha for investors.

**Do you think investor engagement and voting can be impactful in bringing about desired positive changes in ESG practices?**

Engagement is the word that brings everything together. A key component of Impact investment is holding management teams to account. It relies heavily on shareholders actively engaging with the companies they invest in, to embed responsible and sustainable business practices – not just to work towards the UN SDG framework, but also to future-proof the business.

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**Frederik Kooij**

Fred is Chief Investment Officer at Tribe Impact Capital, Europe's first and only dedicated impact wealth manager. Tribe is committed to aligning clients financial requirements, personal values and the change they want to see in the world – their impact – to their investments. He was previously a #1-ranked II analyst in both Equity and Fixed Income at JP Morgan and Credit Suisse, focused on the Media and TMT sectors respectively, before moving to Bluebay Asset Management to lead their Global Leverage Finance research team. Before joining Tribe, he was Partner and CIO at Digital World Capital, an Alternative Manager investing long/short across global equity and credit markets. Separately, he has wide experience as an Angel Investor (mainly in the Impact space) and as a non-executive director.

## Knowing the ESG vs. SRI distinction

There was some confusion when we questioned our respondents on the difference between ESG and Socially Responsible Investment (SRI). A perceived lack of understanding was shown, as 57% of those interviewed did not see any difference between the concept of ESG and SRI.

According to the most recent CFA Investing Book 2020 <sup>3</sup>, ESG refers to the Environmental, Social, and Governance practices of an investment that may have a material impact on the performance of that investment. The integration of ESG factors is used to enhance traditional financial analysis by identifying potential risks and opportunities beyond technical valuations. While there is an overlay of social consciousness, the main objective of ESG valuation remains financial performance.

SRI goes one step further than ESG; it actively eliminates or selects investments according to specific ethical guidelines. The underlying motive could be religion, personal values, or political beliefs. Unlike ESG analysis which shapes valuations, SRI uses ESG factors to apply negative or positive screens on the investment universe. For example, an investor may wish to avoid investment in companies engaged in firearms production, alcohol, tobacco, and other addictive substances, gambling, human rights and labour violations, and environmental damage.

“Understanding ESG is difficult given the proliferation of often highly complex and somewhat inconsistent ratings systems and the preferences of different stakeholders for different indices. Each index involves a huge amount of work to respond to.”

## UK, Investor Relations Officer

<sup>3</sup> CFA Institute – ‘Certificate in ESG Investing Book’ 2020

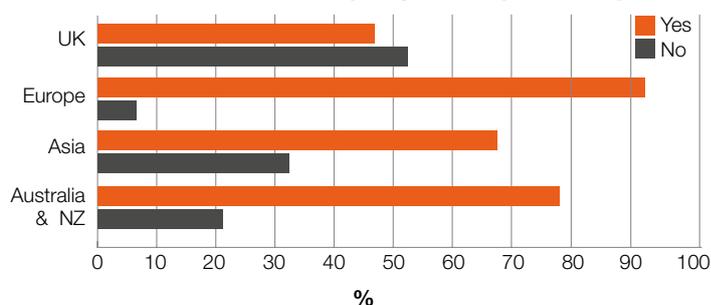
<sup>4</sup> The UK IR Society Survey – ‘Insights into current ESG reporting practices’ – September 2019

## Do you produce an ESG (or Sustainability) report?

69% of respondents worldwide produce a sustainability report. Interestingly, it is only the UK and Ireland where less than half of respondents produce these reports. In comparison, 93% of European issuers report on their sustainability, followed by 79% in Australia & New Zealand, and 67% in Asia.

## ESG ratings: how can you better understand where you fit?

ESG / Sustainability reports by country



In September 2019, the UK IR Society<sup>4</sup> produced a survey. This investigated the insights into current ESG reporting practices. There was an increasing trend in the number of rating agency surveys and requests for disclosure.

When we explored this theme in our research, there were suggestions for the best way to help navigate the static ESG ratings landscape, to resonate with the capital markets and to appear less backward looking. The main ones included:

1. Review your company against your peer group and sector – what are they doing? How often? Are there any sector specific metrics you should be adopting?
2. Proactively engage with ESG rating agencies – if you want them to understand you, you must put in the groundwork
3. Expand your annual report to include an ESG / Sustainability section or create a dedicated separate report – consider your sector and investor expectations
4. Expand your in-house intelligence
5. Stay up to date with the ESG emerging trends

## How are you ESG compliant?

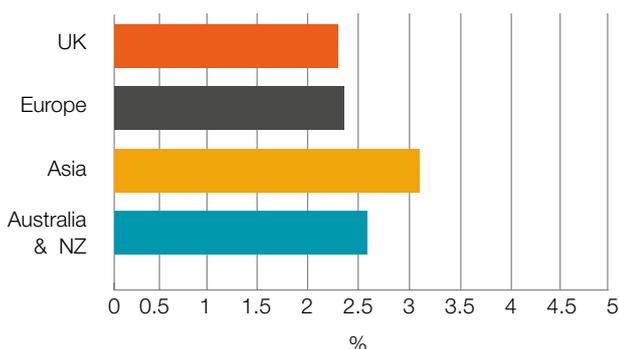
We went on to find out what the key tasks a company is undertaking to be ESG 'compliant'. Respondents shared several approaches that vary based on the different industry and sector parameters.

Depending on the sector in which their company operates, ESG practitioners should be getting up to speed with a number of ESG provisions. Some of the most frequently referenced measures from our survey were:

- Energy efficiency and utilisation of renewable energy sources
- Environmental protection and business ethics
- CO2 reduction
- Materiality assessments
- Adopting recommendations of TCFD analysis and compliance
- Charity activities, sponsorship and fundraising
- EcoVadis survey
- Increased diversity and monitor gender pay gap
- Employee engagement surveys
- Work accident rates
- Compliance to UN Sustainable Development Goals
- NPD sustainability
- Reducing waste streams
- Measuring GHG emissions
- Inclusion and whistleblowing policy

## ESG disclosure

Understanding of ESG disclosure requirements, 1 not clear to 5 very clear



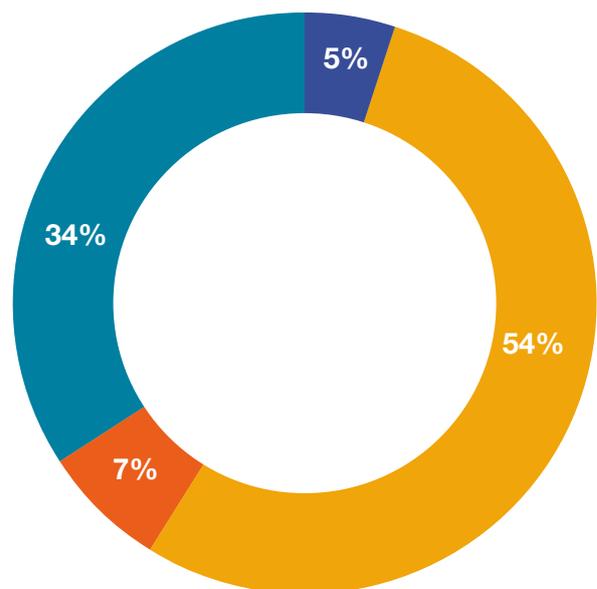
By far, Asian respondents were the most confident in ESG disclosure frameworks with an average level of understanding. UK and Irish respondents were the least clear on disclosure requirements with an average score of 2.32 out of 5. Over a quarter of respondents showed poor understanding (1) which was much starker compared to the other geographies surveyed.

One uniform industry view is that no geography surveyed admitted to finding ESG disclosure requirements clear and easy to understand. Lack of simplicity hinders more general implementation and efficiency.

## Building a relationship with your ESG ratings provider

As part of understanding sector and industry-specific ESG requirements, a company would benefit from engagement with ESG rating agencies. Whilst 40% of those surveyed already engage regularly with more than one provider, 54% do not engage with ESG ratings houses at all.

ESG ratings adviser



- No
- Yes, I speak to all of the ESG rating agencies covering our stock
- Yes, with more than one provider
- Yes, with one provider

“We spend time having to explain to investors our ESG approach and clarify the misleading ESG ratings providers reports.”

**Asia, Investor Relations Officer**

A general theme emerged across all regions highlighting a frustration with the numerous, and often misaligned, ESG reporting requirements expected by various rating agencies. In a recent white paper produced by the World Economic Forum (WEF<sup>5</sup>), there was a consensus around the urgent need to build a holistic ecosystem based on the concept of value creation, truly integrating financial and non-financial information.

Due to the lack of a uniform measurement standards, investors and businesses continue to find the reporting landscape confusing. Report users are struggling to truly understand the future viability and sustainable development potential of an organisation through the information currently provided.

The paper highlighted a two year-project to align major sustainability frameworks with financial reporting, convened by the International Integrated Reporting Council, as a major effort to bring greater clarity, comparability and coherence to the reporting landscape for multi-capital or environmental, social governance (ESG) data.

“We try to actively engage with the rating agencies and investors to understand their requirements and correct any inaccuracies.”

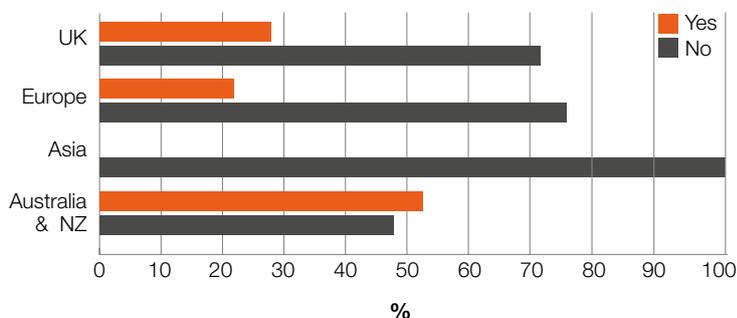
**UK, Investor Relations Officer**

**Governance roadshow – is this part of your regular outreach?**

Just over a quarter (26%) of global respondents run a governance roadshow. A surprisingly large percentage, 74%, do not (at least not within the IR function). This is a prime opportunity to ensure the focus is on presenting your company’s approach to its material ESG issues. It can be a sensible way to focus the attention on any points you want to raise. During the busy voting season, there is a limited timeline to maximise your efforts on this.

Geographically, those IROs we surveyed from Asia do not run governance roadshows. About half of those from Australia & New Zealand do, with around a third from the UK and Ireland and 20% from Europe. This could be because this function is typically run from the company secretariat team, with less involvement from IR.

**Governance roadshow**



“We are undertaking a complete peer analysis of leaders in ESG reporting and compare this with various performance metrics.”

**Australia, Investor Relations Officer**



### **Fiona Wright**

Partner, Brunswick Group

#### **What do you believe is the driving force behind the ever-increasing attention on Corporate Governance? The mitigation of risk? A demand for ethical business? Political pressure? Is the focus on ESG a natural extension of this?**

I see a strong relation between corporate governance and environmental. If you are a company that is not managing your climate exposure well, chances are your corporate governance could be better.

Transparency is key here. There is a lot of scrutiny on what companies are doing and how they are responding to the pressures of the external environment. We have seen some high-profile failures where there has been destruction of shareholder value, precisely because the company was not well-managed and not responding to these challenges in a timely manner.

#### **If you had to name just one, what widespread ESG practice do you see as the most challenging to deal with?**

Aligning your broader activities with the narrative you are presenting to policy makers, directly on your own, or through trade associations, and through ratings agencies, is the most important challenge. There is so much scrutiny around the topic at the moment that you might be seen as presenting different things to different stakeholders. If you deliver a nice ESG narrative to investors, it also needs to include sufficient proof points to resonate with NGOs, politicians and agencies.

For a lot of companies, the challenge is putting this message together without anticipating how much scrutiny there is from a broad universe of stakeholders on this topic at the moment. There is a strong risk of being perceived to be doing one thing and saying another.

Dealing with sustainability ratings agencies is increasingly important and it is a challenge. They are very uneven and not very transparent in how the ratings are put together. We expect the regulators to soon propose ways to harmonise the way ratings agencies go about putting together their recommendations.

#### **What is the most important ESG aspect that should be covered by issuers?**

It depends on the company. Issuers come at this from different entry points. The sequence of how a company enters ESG and starts communicating differs depending on their management and the industry. Companies that are significantly more diversified could have exposure to a lot more smaller risks than, say, an oil company that has a completely different exposure and higher risk profile. When you have different starting points, it is much more difficult to join the dots across industries. But, we can say that companies with a clear link between ESG and their core corporate narratives have been very successful.

For example, we work with a company that produces batteries for electric cars. Their production process is very challenging because of the raw material going into their batteries, in terms of carbon footprint, sustainability, and supply chain.

They brought sustainability into their narrative early on by committing to using a high amount of renewable energy. This also led to a direct cost saving. They could immediately start making a business case for their sustainability narrative, showing the business benefits. This highlighted the long-term value creation for the company. The sooner these types of conversations are brought into the picture, the better.

**How have boards evolved to manage ESG differently to a decade ago? How do you think the next decade will evolve? What are your predictions for the new areas of interest that will emerge and what topics do you think will start to lose relevance?**

From what I have seen, the changes are very uneven and depend on: the company, the nature of their operations and how they finance their operations.

**What can be done to improve dialogue between companies and their investors around ESG?**

The companies we see doing good ESG are usually moving towards integrated reporting, and the communications model where they do investor roadshows/governance roadshows. They talk about ESG in calls and integrate the ESG report in their financial reporting.

**Do you think investor engagement and voting can be impactful in bringing about desired positive changes in ESG practices? Would you like legislators to play a bigger/smaller role in bringing about governance changes such as TCFD (Task Force for Climate-related Financial Disclosure)?**

To further improve dialogue with investors, companies try to be proactive about ESG. But then often we see them and/or their trade associations lobbying in the opposite way.

In Europe, there has been a lack of constructive dialogue at the political level. While resistance to regulations is often understandable, in this case it has been counterproductive. For example, purely adversarial engagement can lead to suboptimal regulation which is costly and difficult for industry to implement.

Businesses need to engage more often with the regulatory ESG agenda because it is derived from a high-level framework. It's being transposed into prescriptive European Union rules that companies of a certain size will have to live with soon. The opportunity for business is to engage with the framework to make it more operationally manageable and efficient.

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**Fiona Wright**

Fiona heads Brunswick Group's financial services practice in Brussels. She joined Brunswick in 2016 with more than 15 years' experience in government and public affairs, and a focus on financial services, trade and economic affairs. She has worked in Washington DC, London and Brussels. Between 2004 and 2012, Fiona worked in a range of roles at the UK Treasury, latterly including EU engagement around the Stern report on the Economics of Climate Change and latterly as a seconded national expert at the European Commission's Economic and Financial Affairs Directorate-General (2008-11).

“Dealing with rating agencies is important and it is a challenge ... we do expect the regulators to harmonise the way ratings agencies go about putting together their recommendations.”

# OC Research - How seriously are you taking ESG?

## Remuneration - the link to ESG and long-term performance

Remuneration structures should be designed to ensure an appropriate balance of fixed and variable rewards, although this isn't always the case. These rewards should include short-term and long-term incentives, and are weighted towards performance-related elements that take into account individual, functional and corporate performance.

We asked our survey respondents if their or their company management's remuneration was aligned with ESG related metrics.

### For IRO's

65% of those surveyed said there is no connection between their remuneration and incentive to the ESG values and long-term performance of the company they work for.

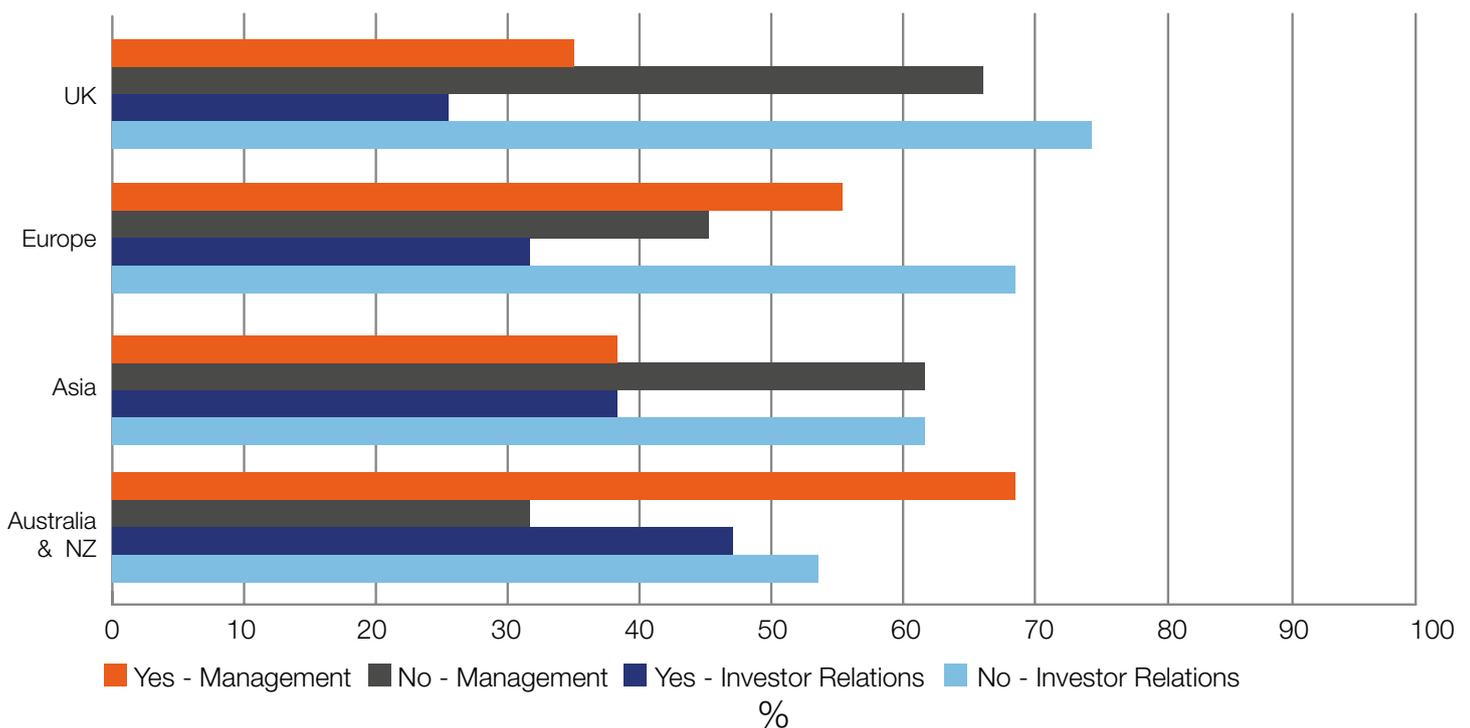
## For company management

Surprisingly (we expected the result to be higher!) the average ratio between management and their remuneration and incentive vs. ESG and long-term performance was 50% each way. Perhaps this is something to watch as ESG develops into a more widely considered theme and a more mainstream focus for the future. For example, in this year's governance roadshow season, we have noticed that investors are pushing for the inclusion of at least one quantitative ESG-linked performance criteria for bonuses and long-term incentives.

### Geographical trends

Interestingly, the differences are more obvious when you look at the results between geographies. Just over half of European (55%) and Australian & New Zealand respondents (68%) stated that company management's remuneration is linked to ESG performances. Only a third of UK and Ireland see their remuneration linked to ESG. The UK and Ireland is also the region where the least amount of IROs have ESG metrics tied to their remuneration.

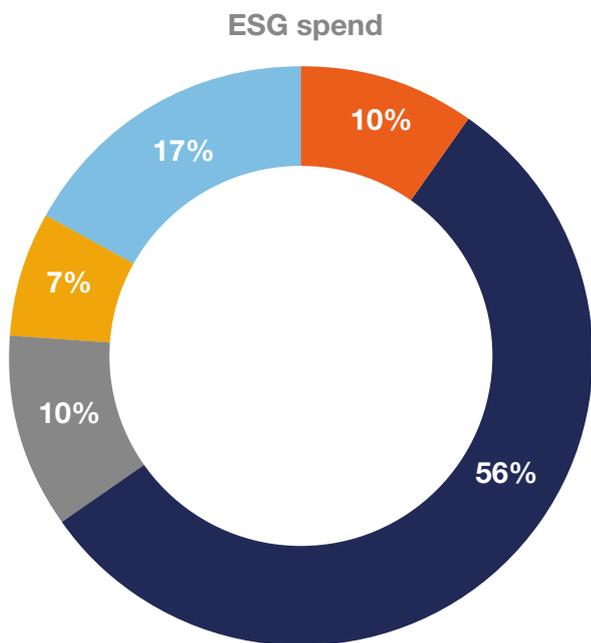
ESG vs Rem (Management)



### ESG average spend

Despite the growing appetite for requirements around ESG, which includes a larger number of investors taking ESG into account before making investment decisions, the budget allocated to ESG remains limited, with 56% of everyone surveyed spending up to £5,000 of their budget on ESG.

UK respondents appear to have the lowest ESG budgets, compared to Asia where more than 50% of those surveyed are spending over £10,000. The average ESG spend is between £10,000 and £25,000 with just 14% of the respondents allocating a budget over £25,000, and 6% spending over £50,000. The main geography allocating this much to their budget is Europe.

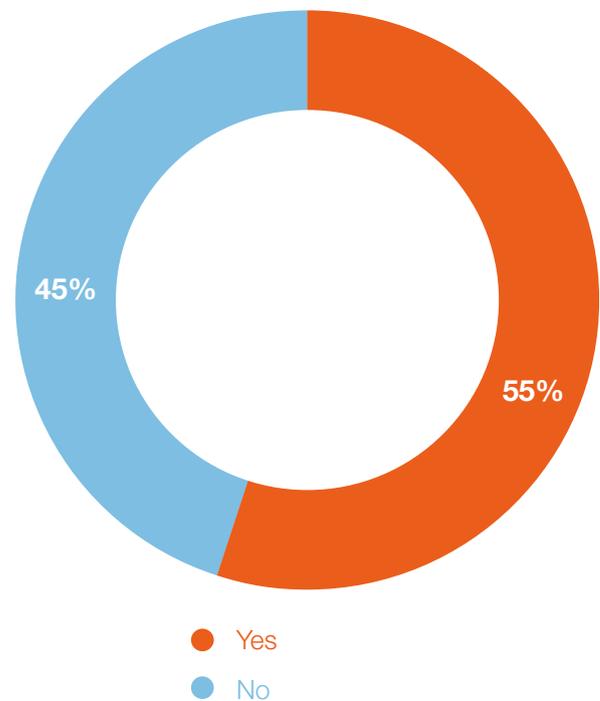


- Up to £5,000
- Between £5,000 and £10,000
- Between £10,000 and £25,000
- Between £25,000 and £50,000
- Over £50,000

### ESG focused conferences, are they worth it?

Our survey focused on finding out if the increasing number of ESG conferences are worth attending. The results indicated that only 55% of those surveyed think the conferences are helpful.

#### Are ESG conferences helpful?



- Yes
- No

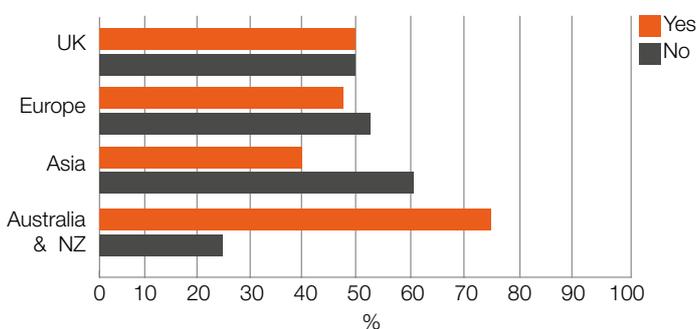
“Lots of conferences tell you what you need to do but not many of them cover how to do it and give actual suggestions for day-to-day integration.”

**Europe, Investor Relations Officer**

### How do the views differ by region?

The overall level of satisfaction with ESG-related conferences varies widely. Australian & New Zealand respondents are the least satisfied, while Asian respondents are the most satisfied.

Geographical view on ESG conferences



### How do the views differ by region?

When asked what, if anything, could improve the conferences, the majority stated that the key theme missing was clearer insight and a workable framework of how to comply with ESG disclosure and standardisation of reporting across different industries.

#### Other key themes included:

- Clearer and standardised ESG framework disclosure
- Learning to prioritise
- Best practice ESG disclosure examples
- Provision of suggestions for day-to-day integration of ESG into IRO practices
- How to prove positive impact, rather than solely focusing on the minimisation of negative effects

“We are trying to include ESG aspects into our equity story more proactively.”

**Europe, Investor Relations Officer**

“Discussions with rating agencies or investors individually can be more helpful. Conferences are less relevant. The time and money would be better spent digesting the many reports that are available, and/or working internally on improvements in measurement and performance against ESG criteria.”

**UK, Investor Relations Officer**



### **Jennifer Harrison**

Head of Sustainability and Extra-Financial Rating Agencies,  
Investor Relations, Societe Generale

#### **What do you believe is the driving force behind the ever increasing attention on corporate governance? Mitigation of risk? A demand for ethical business? Political pressure? Is the focus on ESG a natural extension of this?**

We have to look at the way the investment appetite has evolved. The 21st century investor is looking for sustainable value. Investors are looking at ESG as a key contributor to financial performance and long-term value, and we are seeing sustainability integrated into financial markets in the EU, for example through the new sustainable finance action plan. There are four key reasons for the acceleration of the demand for responsible investing:

1. There is an enhanced risk/return performance
2. The generation of positive environmental and social outcomes
3. End-investor demand, for example millennial savers
4. We are now seeing regulatory developments to support this from a public authority and political pressure perspective

Ultimately, good corporate governance is good business. Rather than the pursuit of ethical behaviour for its own sake, it protects investors, clients, and staff, and defines the quality of our financial markets.

#### **If you had to name just one, what widespread ESG practice do you see as the most challenging to deal with?**

Standardised data or the lack thereof.

#### **Do you see that as a continuing challenge, and have you seen any improvement in that area over time?**

TCFD provides a comprehensive framework for climate disclosures around governance, strategy, risk and targets, but this reporting remains voluntary. Societe Generale published its first TCFD report in 2019 and remains one of the few banks to do so.

Investors tell me there is a lack of definition, methodology and clear frameworks for data to be comparative from one company to the next. For issuers, it can be challenging to know how to define the scope of data, how to report on it and what is expected by the investors. But there is a lot of work being done from both a company and EU level to develop a common language for positive impact activities.

At Societe Generale, we are one of the pioneers of the UN Environment Programme Positive Impact Finance initiative. This applies a reporting approach that is more restrictive than other 'green' standards. It demands increased transparency and

robustness of impact measurement. We have drawn on this reporting methodology to support the reporting of our internal Sustainable and Positive Impact activities. Societe Generale has also used this approach in five Positive Impact Bond issues.

### **Is there an inherent contradiction between investor returns and good corporate governance in relation to ESG?**

I think the answer ten years ago would have been composed exclusively in financial terms, but that's no longer the case. We are seeing ESG become mainstream. More than one in four dollars is now invested in responsible investing strategies. There is mounting evidence that ESG metrics, combined with financials, can be a catalyst for financial outperformance and risk mitigation. It is no longer a question of morality. Many are protecting against market volatility. The acceleration of sustainable investing sees investors seeking to mitigate financial risks and seize value creation opportunities at the same time.

### **Climate change and diversity are the perennial E and S issues – why do these continue to drive headlines? In your view, are you or the companies you observe doing a good enough job addressing the ESG topics that are material to them?**

Climate change and diversity are being driven essentially by society and public authorities, so they effectively can't be avoided – and with very good reason. Initiatives such as the Principles for Responsible Banking, of which Societe Generale is a founding signatory, demonstrate a willingness amongst banks to act collectively and align business activities with the Paris Agreement and the UN SDGs.

If we take board diversity as an example, studies prove that women have different leadership styles and bring a positive impact on the collective intelligence of the group. All of this suggests a positive correlation between the percentage of women on the board and corporate performance. French companies require 40% of women at board level but there is work to do at mid-management level.

From a climate perspective, France is also at the forefront of sustainability and climate-related regulation, so that really strengthens the notion that Paris is a pioneer in the marketplace in green finance. Looking back at 2015, France was the first country to introduce mandatory climate change related reporting. Societe Generale is a natural leader in sustainable finance and climate action supported by this early mover notion in regulation. And today, Societe Generale is the number one bank worldwide in environment as ranked by RobecoSAM.

### **In terms of French regulatory uniqueness, and gender diversity in particular, would you view those kinds of regulatory quotas as a positive thing? Do you think other markets should look at that too?**

The evidence is there to prove the benefit of women in the workplace, and the benefits of a diversity of thinking around the table. It is almost impossible to find statistic and academic data that does not support the positive impact of greater gender diversity on financial performance.

“Investors are seeking reassurance that the board skillset is evolving with the evolution of the industry.”

Among investors, there is no longer a sense or choice of ‘do I want to invest in a company that is doing good or do I want to invest in a company that is doing well financially?’ Investors are essentially pragmatic; they see that they can do good and do well at the same time.

**How have boards evolved to manage ESG differently to a decade ago? How do you think the next decade will evolve? What are your predictions for the new areas of interest that will emerge and what topics do you think will start to lose relevance?**

There’s no question that it is taking up more board time. At Societe Generale, we do not have a separate sustainability committee at Board level, yet there are a number of companies in the market that have introduced one. We consider it important to integrate ESG risks, such as climate or cyber, into the existing risk and strategic discussions. Take climate risk – this does not constitute a new risk category. Rather, it aggravates existing risks such as credit, market, operational or insurance.

Training is very important, so we do regular training on cyber risk for example, and also regular evaluations of our non-executive directors to assess the evolution of the profiles. This ensures they mirror the evolution of the market. A complementary set of profiles amongst directors is essential and their skillsets must reflect the changing dynamics of the market. Investors are seeking reassurance that the board skillset is evolving with the evolution of the industry.

**What can be done to improve dialogue between companies and their investors around ESG? Do you think the ESG specific funds are here to stay?**

ESG themed funds are important, but it is no longer a choice between ESG and traditional equity funds. ESG is becoming mainstream, so companies have a responsibility to communicate to the market in a more integrated way. Engagement is absolutely crucial. At Societe Generale, we have dedicated ESG roadshows with our Chairman but we also integrate our mainstream discussions to include ESG. Our roadshows are not only an opportunity for investors to hear what we are doing on ESG, but also an opportunity for our Board and management to listen to our investors.

**Do you think investor engagement and voting can be impactful in bringing about desired positive changes in ESG practices? Would you like legislators to play a bigger/smaller role in bringing about governance changes, such as TCFD (Task Force for Climate-related Financial Disclosure)?**

The investor voice is key. Investors draw on a responsibility to use that voice, both in bilateral and collective engagement with companies and through their voting practices.

To answer your second question, sustainable finance, and especially climate, is becoming a high priority both at European and national levels. As one of the few banks to have published a TCFD report, we are supportive of these recommendations. Standardisation will help the industry, even if a lot of uncertainty remains around definitions and methodologies.

“There are best practices from the financial rating agencies which can and should be adopted by the extra financial rating agencies.”

### **How do you find your engagement with the extra financial rating agencies?**

The importance of issuer dialogue with investors is also to ensure that investors have accurate, meaningful and material ESG data. They are purchasing analyses and ratings from extra financial rating agencies who frequently rely on media sources.

It is equally important for us to have direct engagement with these agencies. At Societe Generale, we have regular engagement with the main extra financial agencies used by the investors both on a bilateral basis and through industry working groups.

A number of issuers in the market are unhappy with being misrepresented by extra financial rating agencies. The agencies are coming under pressure from investors, issuers and public authorities to improve transparency of their methodologies, engagement and accuracy of their analyses. As data and ratings play an ever greater role in investment decision-making, there are best practices that we believe can be transferred from the financial rating agency approach. I am optimistic that, through engagement, we can improve the ratings industry, which in turn will better serve investment decisions.

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#### **Jennifer Harrison**

Jennifer is Head of Sustainability and Extra-Financial Rating Agencies at Societe Generale: she joined the Investor Relations department in Paris in 2017, launching and developing a strategy for engaging the investment community from an ESG perspective. Jennifer has been with the Societe Generale Group since 2010, initially based in the investment bank in London as a Senior Relationship Manager for UK and European insurers and asset managers. Jennifer graduated from Sheffield University in French and Politics which included a year at the British Council in Paris studying translation and interpreting. She began her career in politics, working as a researcher and speech writer at the House of Commons for a former Cabinet Member of Parliament. Prior to SG, she worked at Credit Lyonnais and Credit Agricole for seven years in the financial institutions coverage team.



### **David Chase Lopes**

Managing Director, EMEA, D.F. King Ltd

#### **What do you believe is the driving force behind the ever increasing attention on Corporate Governance? Mitigation of risk? A demand for ethical business? Political pressure? Is the focus on ESG a natural extension of this?**

These questions are part of the general push from investors and the wider stakeholder community for greater accountability from boards. Boards must be seen as able to manage various forms of systemic risk that could damage the long-term growth potential of shareholder investment or other societal and environmental issues.

There has been a pronounced, more vocal change for individuals, companies, boards and communities to be 'good'. They must take inclusion and wider, more civic factors into account. There is political pressure because constituencies are unhappy. From a governance perspective, corporate 'self-policing' has often reached its limit.

The impactful changes on inclusion and fairness issues have come from prescriptive means from state governments. These relate to topics such as gender diversity on boards, employee representation and fairness in terms of executive remuneration.

#### **How is ESG influencing investment strategy?**

From the corporate governance advisory work we do with listed companies, it is clear that ESG topics are massively important points of debate between our clients, long investors and passive funds. More and more, investors want to understand how and why boards take critical decisions, and how their policies address the material ESG issues of the business.

Those companies who do not know how to communicate the way their material issues will be addressed clearly will be perceived as far less attractive to investors. The state of the planet is on people's minds and there has been a prominent impact by environmental campaigners, such as Greta Thunberg. So investors are going to seek out investment opportunities with companies that are on the front foot of issues such as taxology and climate-related financial disclosure.

#### **Is there an inherent contradiction between investor returns and good corporate governance in relation to ESG?**

Only time will tell. Clearly, investors have a client demand to invest in companies that 'do the right thing'. As younger generations fill more of the worldwide investor pool, this trend will grow.

Everyone agrees that appropriate behaviour – centred around honesty, hard work and fairness – should be valued and applied in business. It becomes tricky to prove that the appropriate behaviour required for good governance will lead to a great return for investors, because profitability and returns also relate to market demand for what the listed company produces.

“More and more, investors want to understand how and why boards take critical decisions, and how their policies address the material ESG issues of the business. Those companies who do not know how to communicate clearly... will be perceived as far less attractive to investors.”

We will probably have a better answer when we see which companies survive the next market crash and test how robust the theory that the application of best governance practices generates superior returns for investors.

**Climate change and diversity are the perennial E and S issues – why do these continue to drive headlines? In your view, are the companies you observe doing a good enough good addressing the ESG topics that are material to them?**

Environment is perennial because the planet is experiencing a monumental evolution – climate change. This issue has seeped into everyday life so it covers all topics that a modern board of directors would need to address.

The seismic societal forces have been at work since the 1960s and finally the concepts of ‘inclusion’ and ‘fairness’ have arrived at the boardroom because there is a market demand for them. We have seen an acceleration of attentiveness to E and S questions over the past couple of years. Companies are placing more energy and commitment to address E and S topics.

For E, they appear to focus on explaining how they are addressing the material environmental issues they face with long-term plans that state quantifiable goals. Societal issues focus on how companies address their greater stakeholders beyond their investors. We see examples of how they address these challenges in topics such as diversity across their companies, remuneration equality, engagement with their communities and employees elected to boards.

**How have boards evolved to manage ESG differently to a decade ago?**

Things started to change in 2017. Until then, boards were clearly focused on G and, particularly, how they could best demonstrate alignment between their corporate officers’ remuneration and their investors return. Trump, Brexit and continental weak leadership pushed responsibility about major topics concerning the environment and society to companies and boards.

**What can be done to improve dialogue between companies and their investors around ESG? Do you think the ESG specific funds are here to stay?**

Companies would assist greatly their investors if they described how their boards tackled ESG in terms of managing various types of systemic risk. Investors have always been vigilant to ensure that boards work in the interest of all investors. They want to make sure that they are comprised of members who understand the material E and S challenges that their companies face.

**Do you think investor engagement and voting can be impactful in bringing about desired positive changes in ESG practices? Would you like legislators to play a bigger/smaller role in bringing about governance changes such as TCFD (Task Force for Climate-related Financial Disclosure)?**

Definitely. We see the corporate governance roadshows as an opportunity for the company to explain how they are addressing material environmental and societal issues that affect their companies.

From my experience on the continent, it is clear that prescriptive measures are effective to create change on complex issues. This goes beyond Adam Smith's actor/principal model that focuses solely on shareholder's return. It is not to say that Larry Fink's 'purpose' letter or the Conference Board's statements last summer are not monumental. But France's more prescriptive approach changed its market from a shareholder model to a stakeholder model in less than a decade.

**The Board composition debate has long focused on independence and more recently diversity – but we are noticing an increase in attention on the skills and experience around the table. How does this fit with what you are seeing, particularly around ESG?**

Boards are more willing to refresh their composition with members whose skills and expertise are required for their short to medium-term strategy. Diversity is seen as a key ingredient. We tend to see younger candidates with more diverse backgrounds in terms of gender and geography with new types of skills that address new challenges such as digitalisation, ESG or cybersecurity.

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**David Chase Lopes**

David joined Orient Capital in July 2010. Since his arrival, his team have overseen approximately 400 shareholder communication mandates across the continent including listed companies such as Orange, PepsiCo, Unilever, RTI, Solvay, Nexans, Edenred, Ubisoft, Renault and many others. Before joining OC, David enjoyed successful leadership positions at Salisbury Associates and Georgeson. David worked in investment banking from 1992 to 2005 at Deutsche Bank and Société Générale. He holds a master's degree from Columbia University, completed the foreign degree with honours from l'Institut d'Etudes Politiques de Paris and graduated Magna Cum Laude from Hamilton College. He is professionally qualified with the Certificate in Corporate Finance from the CISI and is an FSA-approved individual. He speaks regularly on corporate governance and shareholder engagement internationally. In 2014 David was chosen as MD to lead the proxy business of D.F. King Limited (the new name for OC's proxy activity).

## Approaching ESG

### A key criteria

There has been a distinct growth of prominence in the ESG movement. Statistics show that, in 2019, fund flows into the 288 open-end and exchange-traded sustainable funds reached \$13.5 billion in the U.S. alone<sup>6</sup>. This is a drop in the ocean compared to the sea change at some of the world's largest investment houses who are openly incorporating ESG in their investment philosophy. A good example is Blackrock Larry Fink's 2020 letter to CEOs and a prominent viewpoint as expressed by our expert contributors in this report.

### A clear demonstration that investors are taking ESG seriously.

The results of our research have further indicated that ESG has become more important and hit the mainstream, with over 40% of IR teams looking at ESG as the main point of contact with the capital markets. Two thirds of IROs indicated they have seen a change in their role to incorporate ESG, with ESG responsibilities being added to their daily workload.

### Knowledge is power

Despite this, the survey highlights a gap in ESG knowledge with close to 60% assessing their companies' performance and understanding of topic as 'average' or 'below average'. A striking 52% of respondents admitted to being unable to understand the difference between SRI and ESG, and the inability to understand what tasks are to be prioritised to be ESG-compliant.

Close to half of respondents consider the engagement with ESG rating agencies to be part of their role and identify in ESG reporting as the main ESG-related task. Two thirds produce a regular sustainability or ESG report.

### Bang for your buck

To remedy this, it may require an additional resource spend. Budget-wise, over 50% of those surveyed are spending no more than £5,000 a year on ESG services, while 10% are investing more heavily by spending over £50,000 every year.

For companies with an annual budget of over £25,000 or more for ESG research and advisory services, there is alignment between the sectors who have been dealing with ESG related requirements for longer; real estate, chemicals, mining, retail, electronics and oil and gas.

### Hitting the right note

It is clearly important that those involved in the IR and Company Secretarial functions dedicate time to get to grips with ESG topics. They should understand and learn how to best shape its importance into corporate messaging, translating complex business models into an easily digestible ESG strategy, and to align it with the most important ESG metrics highlighted by ESG rating agencies.

Our recommendation would be for those new to ESG to become familiar with sector specific ESG acronyms, engage regularly with investors on ESG thematic through governance roadshow(s), proactively engage with ESG rating agencies, and spend time to understand key metrics to assess ESG performances. Also look at companies who have been reporting on ESG for some time and see what they are doing well as par for the course.

6 Morningstar Direct – 'ESG Integration, Impact and Sustainable Sector, Sustainable Funds U.S. Landscape Report' – Data as at September 2019

# Methodology

The research used in this Report builds the views and survey findings of over 100 issuers. This was geographically spread evenly with a third coming from the UK, a third from Europe and the rest from Asia Pacific, with a particular focus on Hong Kong and Australia.

The vast proportion of those interviewed work in Investor Relations (84%) with the remaining participants covering a number of functions including Company Secretariat, Corporate Governance, CFO and Communications. Each person was surveyed to uncover trends throughout each region and across the industry.

The research findings identified trends within each category and enabled the Orient Capital intelligence team to compare findings across categories.

This intelligence was further combined with expert interviews from industry practitioners who were asked in-depth questions, as defined in the interview sections.

## Source material:

Orient Capital ESG Survey results – December 2019 to January 2020

## Additional Footnote References:

<sup>1</sup> **D.F. King** – ‘General Meeting Season Review’ – September 2019

<sup>2</sup> **Company Matters** – ‘Board Diversity in AIM and FTSE Small Cap Companies’ – January 2020

<sup>3</sup> **CFA Institute** – ‘Certificate in ESG Investing Book’ 2020

<sup>4</sup> **The UK IR Society Survey** ‘Insights into current ESG reporting practices’ – September 2019

<sup>5</sup> **World Economic Forum** – ‘Seeking Return on ESG: Advancing the Reporting Ecosystem to Unlock Impact for Business and Society’ – January 2019

<sup>6</sup> **Morningstar Direct** – ESG Integration, Impact and Sustainable Sector, Sustainable Funds U.S. Landscape Report – Data as at September 2019

## CDSB

Climate Disclosure Standards Board is an international consortium of business and environmental NGOs, advancing and aligning corporate reporting to equate natural capital with financial capital.

## CDP scoring

CDP runs the global environmental disclosure system, supporting companies, cities and states to measure and manage their risks and opportunities on climate change water security and deforestation. Over 525 investors with over \$96 trillion in assets requested disclosure through CDP last year.

## CSR

Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders, and the public. By practicing corporate social responsibility, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental.

## ESG

Environmental, social and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

## GHG

Global greenhouse gases – it is currently estimated that 21% of global emissions are from Industry.

## Green Levy

A green levy is a tax imposed by a government on sources of pollution or carbon emission. A green levy is aimed at discouraging the use of inefficient sources of energy, and encouraging the implementation of environmental-friendly alternatives. The term is most commonly used in relation to a tax on fuel-inefficient vehicles.

## GRI

Global Reporting Initiative guidelines help businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being. This enables real action to create social, environmental and economic benefits for everyone. The GRI Sustainability Reporting Standards are developed with true multi-stakeholder contributions and rooted in the public interest.

## Integrated reporting

Providing a holistic view of a company by truly integrating financial and non-financial reporting.

## IPCC

Intergovernmental Panel on Climate Change has shed light on climate change for three decades, contributing to the understanding of its causes and consequences and the options for risk management through adaptation and mitigation. It has suggested a core focus on limiting global temperature increases to 1.5 degrees Celsius as part of its Fifth Assessment Report for the Paris Agreement.

## PII

The Positive Impact Initiative (PII) is a think-and-do-tank within the United Nations Environment Programme Finance Initiative (UNEP FI) focused on closing the \$2.5 trillion SDG financing gap. Based on a unique theory of impact, PII works with a set of principles, to mainstream impact analysis and management in business and finance as a cornerstone to financing the SDGs. <https://www.unepfi.org/positive-impact/positive-impact/>

## Ratings agencies

Providers range from independent companies such as Sustainalytics to ESG sections of larger groups such as MSCI and FTSE Russell. They are becoming increasingly influential in the allocation of capital through their ratings for issuers.

## SASB

The mission of the Sustainability Accounting Standards Board (SASB) Foundation is to establish industry-specific disclosure standards across environmental, social, and governance topics that facilitate communication between companies and investors about financially material, decision-useful information. Such information should be relevant, reliable and comparable across companies on a global basis.

## SBTs

Science-based targets are carbon reduction targets that are in line with the amount of reduction required to limit global warming to the levels recommended by science.

## SDGs

The United Nations Sustainable Development Goals focus on 17 key areas that are all inter connected, with an aim to achieve them by 2030 - [un.org/sustainable-development](https://un.org/sustainable-development)

## SLO

The social license to operate (SLO), or simply social license, refers to the ongoing acceptance of a company or industry's standard business practices and operating procedures by its employees, stakeholders, and the general public.

## Social Impact Statement

A social impact statement or corporate responsibility statement (CRS) is a company's account of how its operations affect social and environmental factors in the communities where it operates. A social impact statement might detail a company's charitable giving and volunteer activities, the ways it is reducing its energy consumption, the benefits it provides to its workers and the jobs it has created in communities.

## SRI

Socially responsible investing (SRI), also known as social investment, is an investment that is considered socially responsible due to the nature of the business the company conducts. Common themes for socially responsible investments include socially conscious investing. Socially responsible investments can be made into individual companies with good social value, or through a socially conscious mutual fund or exchange-traded fund (ETF).

## S-NPD / SPD

New product development with an aim to review the sustainability in the delivery of product innovation where additional criteria of sustainability are added at each of the stage gate processes to increase supply chain resilience and value for the customer.

## Sustainable finance

Sustainable finance refers to any form of financial service integrating environmental, social and governance (ESG) criteria into the business or investment decisions for the lasting benefit of both clients and society at large.

## TCFD

Task force on Climate-related Financial Disclosures – aims to ensure that businesses are providing decision-useful information to investors in relation to long term climate-related risks and opportunities by developing voluntary, consistent climate-related financial risk disclosures.

## UK Government Commitment

The Committee on Climate Change argues that a net zero (GHG) target for 2050 is achievable and has legislated accordingly.

## UN Global Compact

The United Nations Global Compact is a strategic initiative that supports global companies that are committed to responsible business practices in the areas of human rights, labour, the environment and corruption. This UN-led initiative promotes activities that contribute to sustainable development goals to create a better world.



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