Who benefits from ESG transparency

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WHY REPORT ON ESG ISSUES?

Good for stakeholders:

- Investor demand (both mainstream and responsible investors; adherence to the UN Principles on Responsible Investment (PRI) is beginning to be taken as a given is some markets)
- Other stakeholder interest (authorities, communities, NGOs, potential clients..) – open disclosure helps in understanding the company’s plan and in holding it accountable

Good for the company:

- Identification of cost savings and profit opportunities
- Improves holistic understanding of the company’s operating environment and challenges/opportunities
- Reputational/marketing benefits
- But: ‘greenwashing’ must be avoided because it will do a lot more harm than good!!

Good for the planet:

- Climate change, water shortages, peak oil, population growth, food security… All affect companies and their stakeholders, but they can also play a role in finding solutions and lessen the pressure on the planet if managing their own impacts well.

WHY ARE INVESTORS INTERESTED IN ESG INFORMATION?

- Reputation: wrongdoing can be associated to those funding/investing in it

- Religious organisations and charities often wish to invest in line with their values; labourers' pension funds' are concerned about working conditions etc.

- Public and customer expectations/demands – or the need to match competitors' sustainable offerings

- Different approaches to taking into account ESG issues in investment strategy
  - Screening – both negative (funds with exclusions) and positive (themed funds, also e.g. FTSE4Good tracker funds)
  - Best-in-class
  - Engagement instead of exclusion – influencing the company; does not require restrictions to the investment universe (can be used with all other approaches here)
  - Integrated/materiality approach (e.g. Risk rating)

MATERIALITY AS A MOTIVATING FACTOR

- Investee company's handling of ESG can be perceived as a reflection of the management quality, illustration of holistic understanding of issues affecting the business, and proof of long-term orientation.

- Certain ESG issues can very quickly and concretely show on the bottom line as well as on the share price.

- ESG analysis can highlight both material risks and profit opportunities which 'traditional' investment analysis may miss or not price correctly; competitive advantage over other investors.

- **There is some evidence that companies with good ESG management outperform those with low preparedness**

WHAT KIND OF ESG INFORMATION DO INVESTORS PREFER?

- Quantitative information and numbers can most readily be integrated into financial analysis and enable comparison between companies and sectors; this also applies to ESG reporting.

- Key performance indicators (KPIs), objectives and targets help investors understand where the company is heading medium to long-term, and may hence more easily be taken into account in financial models.

- On the other hand, philanthropy usually adds very little value to investment analysis

- According to a study by Harvard Business School, investors using Bloomberg interface accessed most

  1) Overall disclosure score
  2) Greenhouse gas emissions related data

  - but relatively few looked at the data on social issues (more difficult to turn into a financial/business issue?)

THE DO'S AND DON'TS OF ESG DISCLOSURE

DO

- Make sure you choose relevant issues and indicators for your company; there is no one-size-fits-all;
- Include both measurable and qualitative information;
- Cover the whole company's impacts, not just the head office (supply chain, lifecycle of products);
- Refer to the strategic relevance of ESG issues;
- Link commentary to business plan and show how relevant issues are included in risk assessment;
- Highlight profit opportunities too, not just risks;
- Utilise a structured framework (e.g. GRI)
- Consider external assurance – verification of ESG data makes the information more reliable.

DON'T

- Focus on philanthropy - it might be appropriate as an add-on but has little strategic value from the investor perspective;
- Lie (greenwashing can be very damaging);
- Concentrate on quantity over quality or style over substance - readers will see through it and longer is not always (or in fact usually) better;
- Forget to update information from year to year (no copying and pasting last year's report);
- Ignore your stakeholders but keep your target audiences in mind when preparing the information and engage with them to gain feedback;
- Hide areas that need improvement - being transparent and honest makes reporting more credible.

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