



The Story Behind the ESG Data

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Agenda



1. Introduction to Sustainalytics
2. Responsible Investment Trends & Approaches
3. Key Driver: Materiality
4. The Story Behind the ESG Data
5. Discussion Topics

Introducing Sustainalytics

Sustainalytics: Who We Are



Sustainalytics is the largest pure-play investment research and ratings provider dedicated to RI and ESG research.



- One of only two global ESG research firms and the only independent firm
- Over 20 years experience in the fields of ESG & corporate governance research & analysis
- Over 300 professional staff with more than half engaged in research
- Offices spread around the globe, providing local market knowledge

Sustainalytics: What We Do



We help clients turn vast quantities of environmental, social and governance (ESG) information into insightful, value-added analysis to enable more informed investment decisions



- Serve over 350 clients across institutional & wealth clients from 22 countries
- Help investors integrate ESG factors into their investment processes
- Provide comprehensive ESG ratings and research across more than 5,000 companies worldwide

Research Services at a Glance



Company ESG Research

- Company profiles and ratings for over 4,000 issuers
- Controversy analysis for over 10,000 issuers
- Thematic and sector research
- Event Alerts

Corporate Governance Research

- In-depth research on a company's governance performance
- Research on over 4,000 companies globally

Global Compact Compliance

- Over 20,000 companies researched on a quarterly basis
- Companies in breach of the Global Compact are those with an outstanding negative impact on stakeholders

Country Research

- Research and ratings on over 170 countries
- Sanctions research
- Research on high risk countries
- Country events alerts

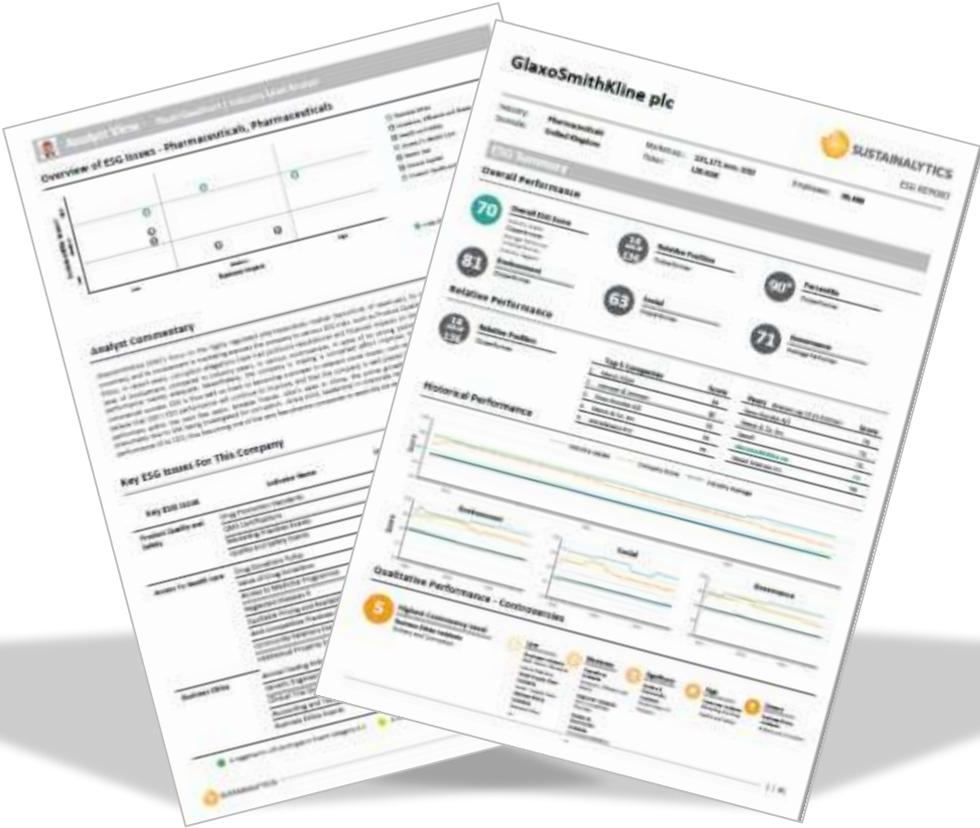
Sector and Thematic Research

- Research on material key ESG issues for all industries
- Research on cross-sectoral ESG issues that are material for investors

Screening Research

- Over 15 product involvement areas researched
- Research on all publicly listed companies globally, and all private companies for some areas (e.g. controversial weapons)

Company ESG Research and Ratings



- ✓ Ratings are generated on the basis of a weighted balanced score card.
- ✓ Transparent assessment of companies based on 60 to 80 financially material indicators per sector.
- ✓ Used for Sector, Historic & Portfolio benchmarking

Thematic and Sector Research

Sector reports



- In-depth sector analysis and focus on ESG trends
- Annual updates

Thought leadership reports



- Deep dive on emerging key ESG issues
- Quarterly ESG Spotlights
- Governance in Brief

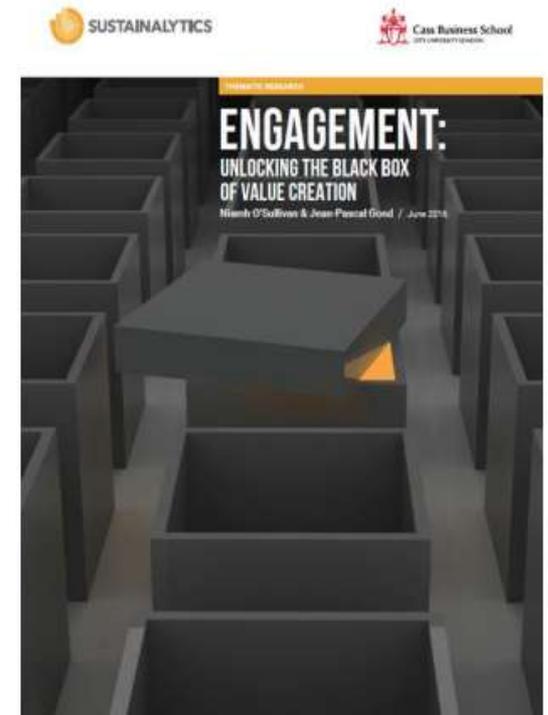
Sustainalytics' Academic Program



Our Academic Program aims to support responsible investment research as well as meet increasing demand for ESG insights from academia. Through its program, Sustainalytics offers a range of ESG data to support studies, and seeks to partner with leading academic institutions to produce responsible investment research.

There are three main pillars of the program to suit varying academic needs:

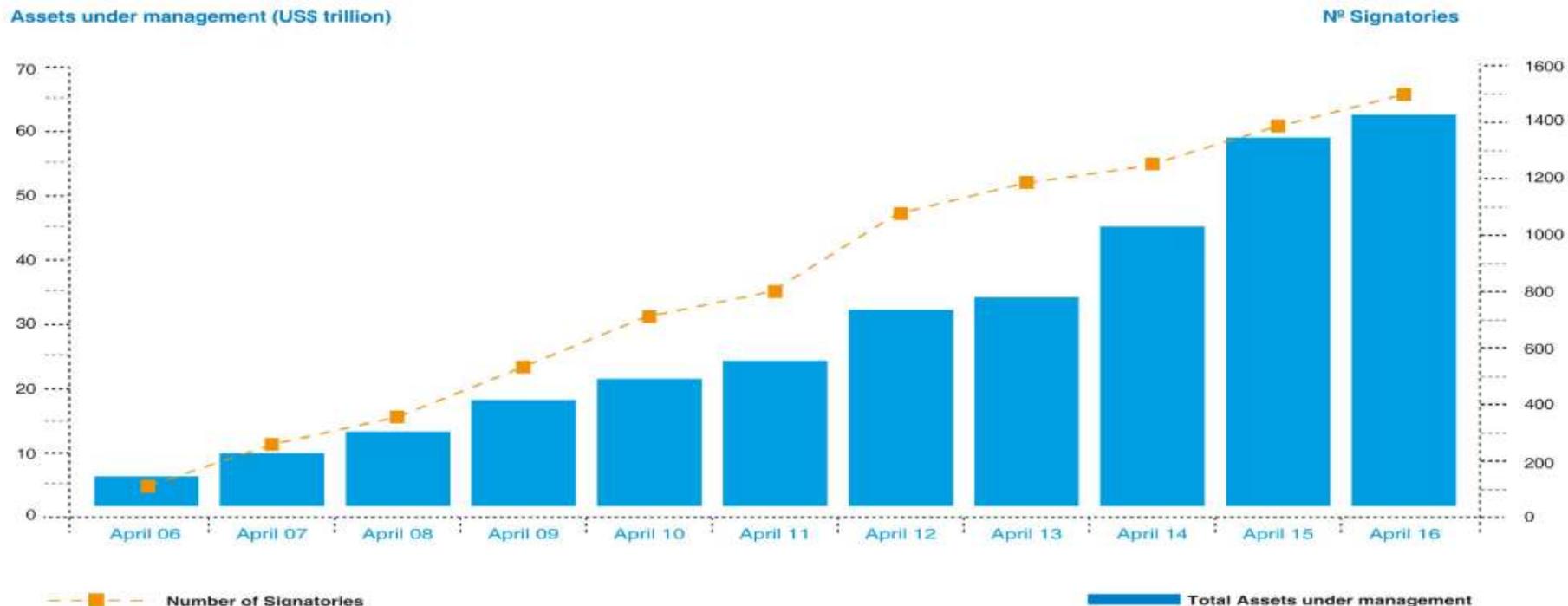
- ESG data subscriptions, mainly via university libraries
- Ad hoc data requests by students, individual academics or university departments via online research portal.
- Strategic partnerships with academics through joint research projects and/or co-branded events



Responsible Investment Trends & Approaches

Trend 1: Steady market growth

Environmental, Social and Governance (ESG) factors are becoming mainstream

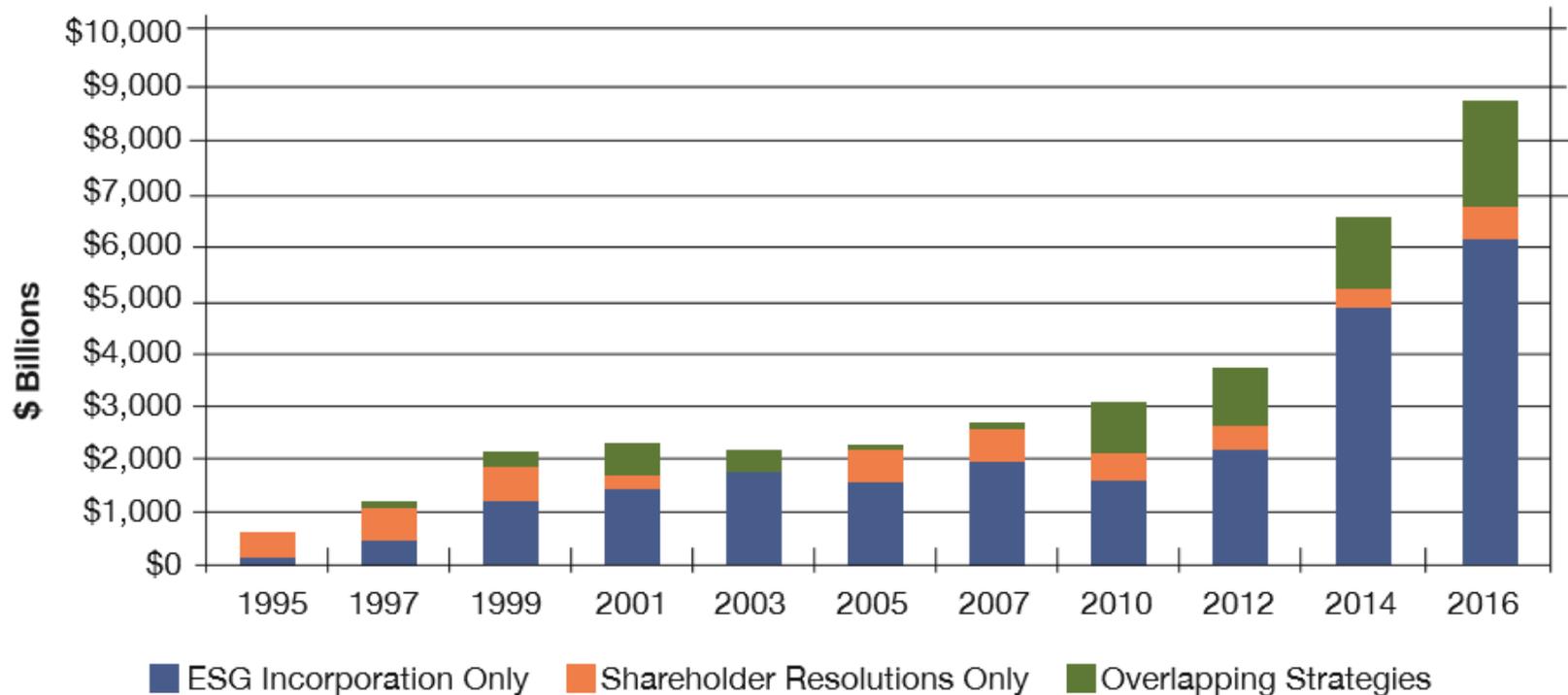


Source: unpri.org

Approximately 1,500 signatories of the Principles for Responsible Investment (PRI), representing US\$62 trillion in assets under management (38% increase in AUM from 2014 to 2016)

Trend 1: Steady market growth

Fig. A: Sustainable, Responsible and Impact Investing in the United States 1995–2016



SOURCE: US SIF Foundation.

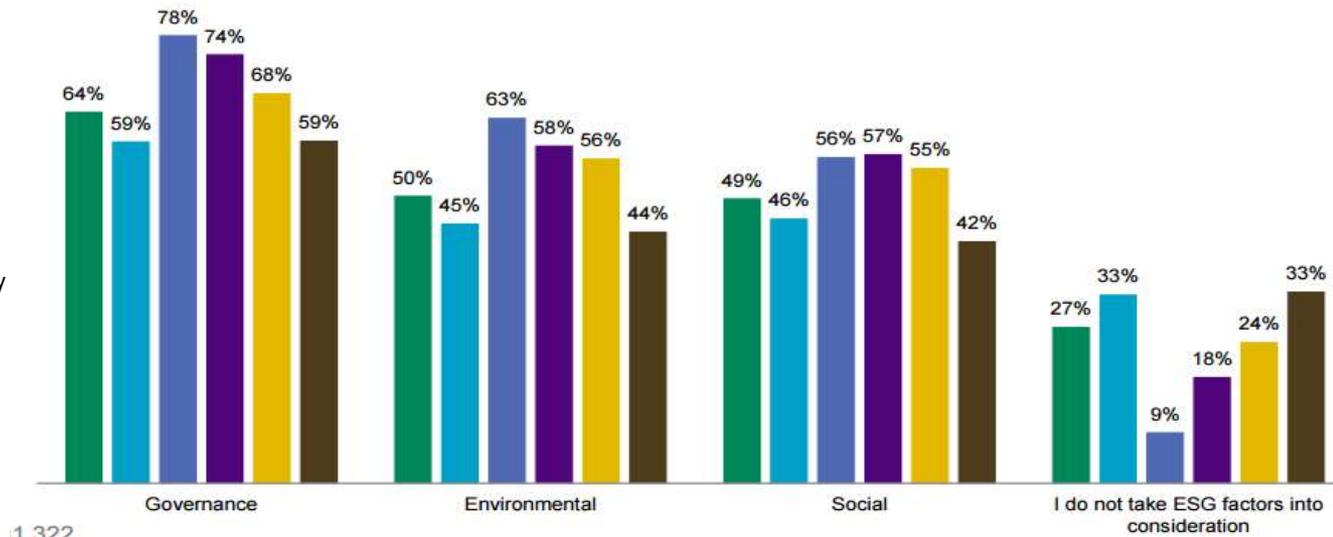
Trend 2: Mainstreaming



73% OF SURVEY RESPONDENTS TAKE ESG ISSUES INTO ACCOUNT IN THEIR INVESTMENT ANALYSIS AND DECISIONS, WITH GOVERNANCE BEING THE MOST COMMON.

Which, if any, of the following ESG issues do you take into account in your investment analysis or decisions?

■ TOTAL ■ AMER ■ APAC ■ EMEA ■ INSTITUTIONAL ■ PRIVATE



Source: 2015 CFA Institute ESG Survey

- According to a CFA survey, 73% of respondents are integrating ESG strategies into their investment decision-making process

Trend 2: Mainstreaming

ESG Fund Ratings



Exhibit 5 Morningstar Sustainability Rating

Distribution	Score	Descriptive Rank	Rating Icon
Highest 10%	5	High	
Next 22.5%	4	Above Average	
Next 35%	3	Average	
Next 22.5%	2	Below Average	
Lowest 10%	1	Low	

ESG Distribution Channels

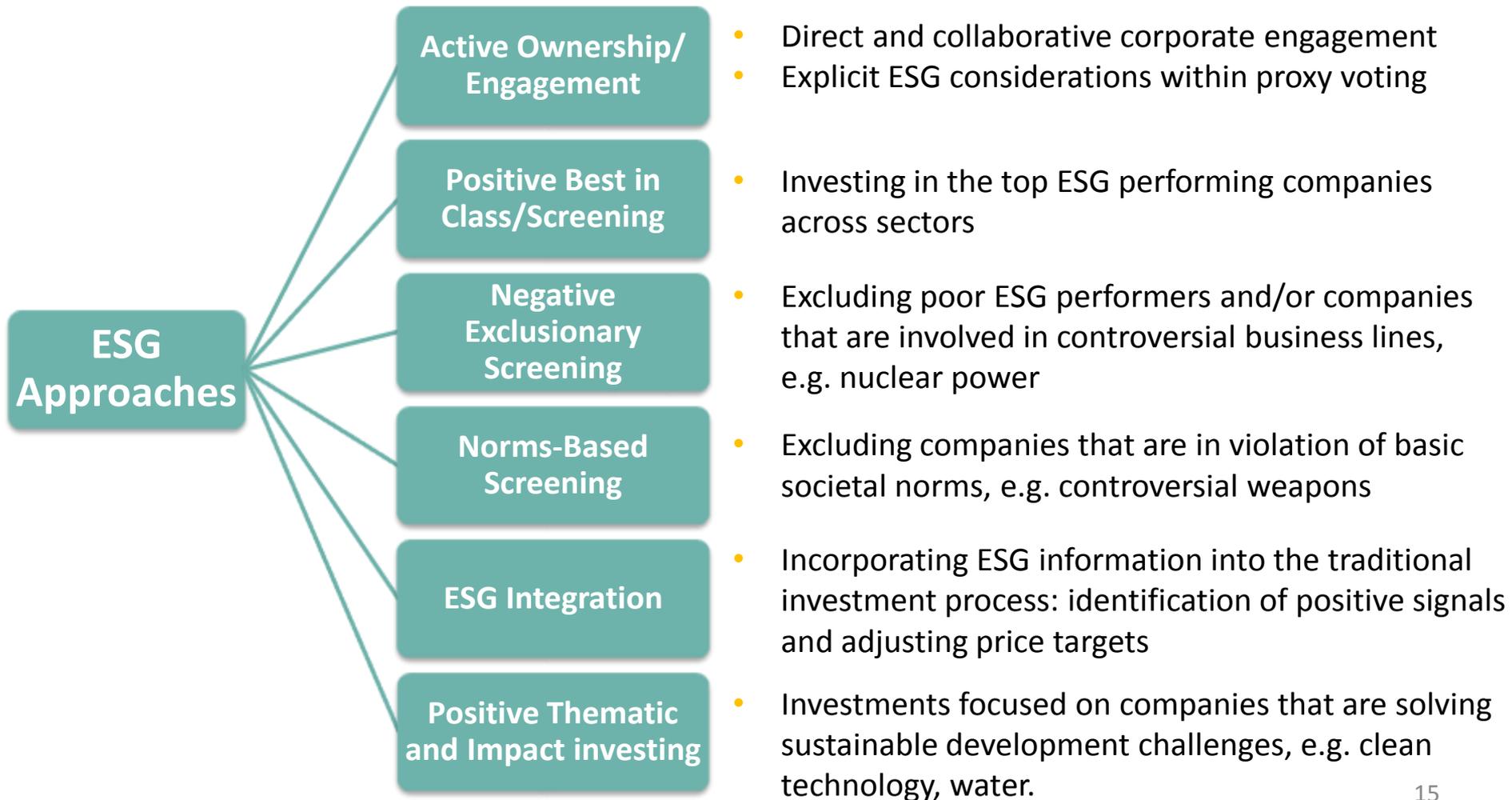


Bloomberg



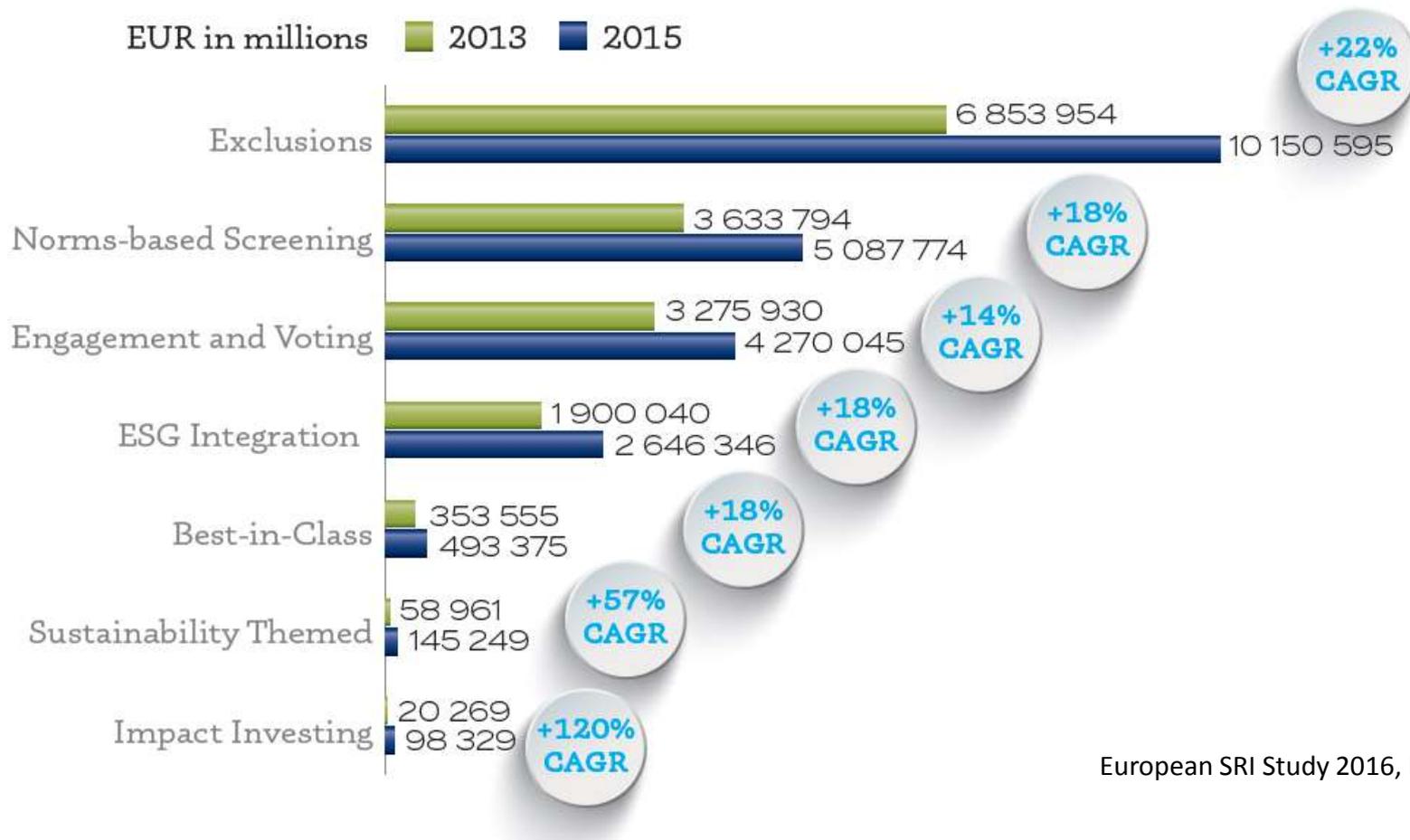
FactSet

Trend 3: Diversification of Approaches



Trend 3: Diversification of Approaches

Figure 1: Overview of SRI Strategies in Europe



European SRI Study 2016, Eurosif

Trend 4: Diversification of Drivers

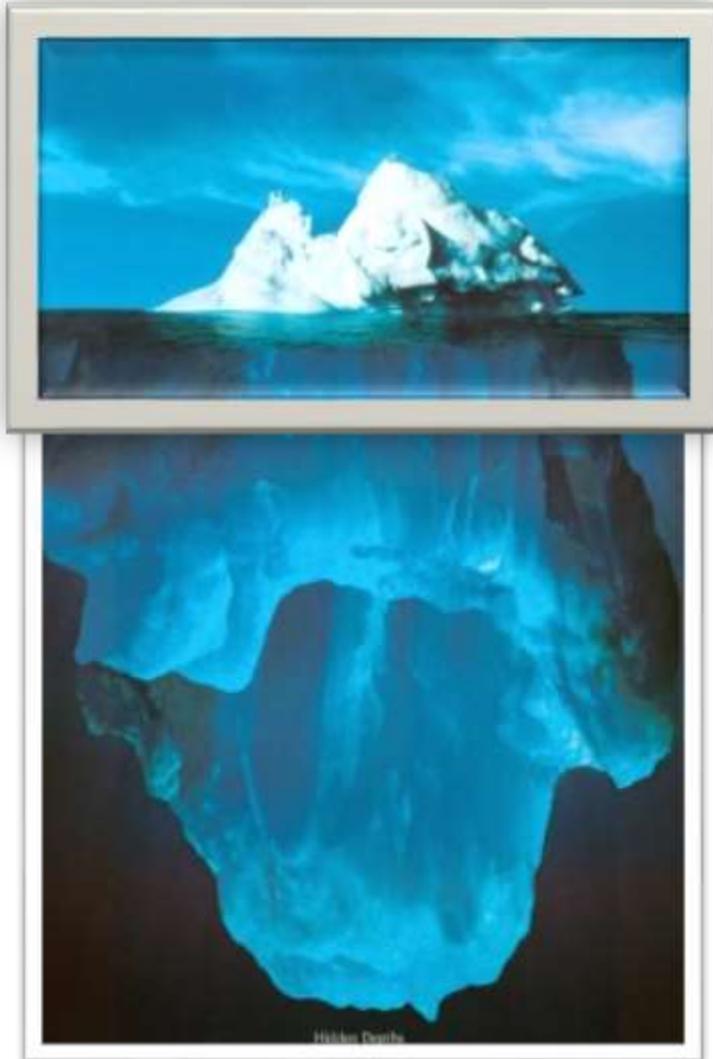
Figure 33: Drivers to SRI strategies



European SRI Study 2016, Eurosif

Key Driver: Materiality

Materiality: Hidden Risks



*“Obvious investment risks are few;
hidden ones are plentiful” – Blackrock*

Materiality: Academic Evidence

Stock market performance on Material & Immaterial Issues



	Low performance on material issues	High performance on material issues
Low performance on immaterial issues	-2.90%	6.01%
High performance on immaterial issues	0.6%	1.96%

“...firms with good performance on material sustainability issues significantly outperform firms with poor performance on these issues, suggesting that investments in sustainability issues are shareholder-value enhancing.”

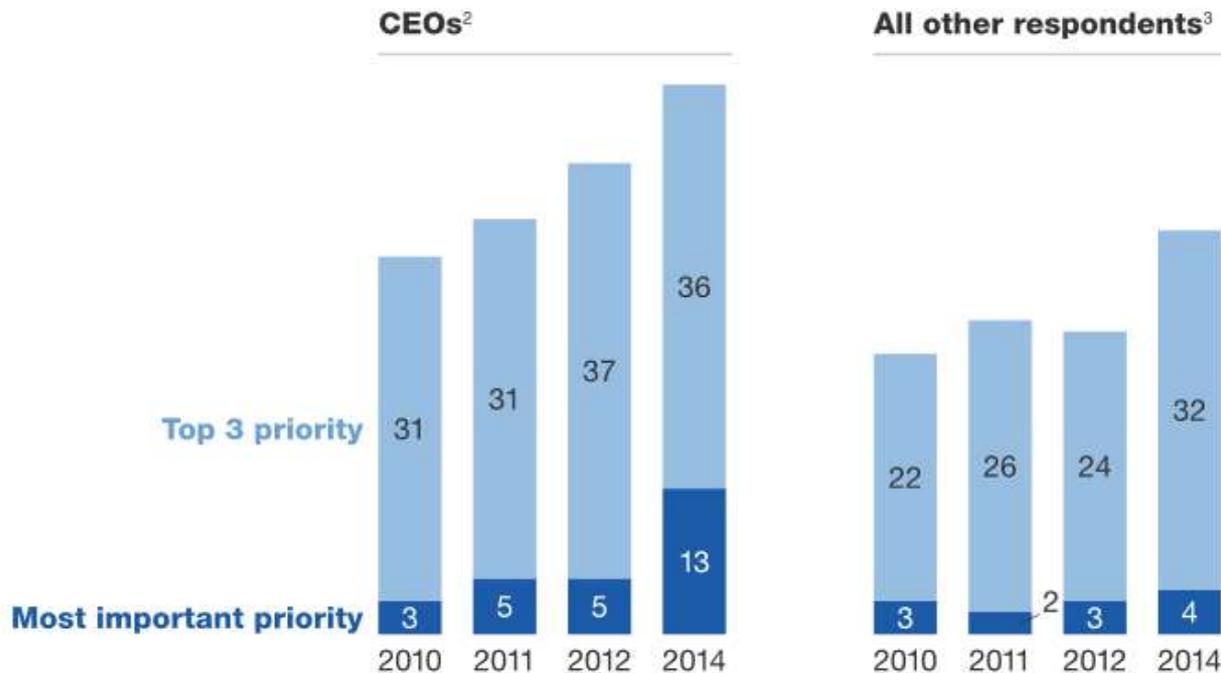
** sign. at 5% level
*** sign. at 1% level

Source: Khan/Serafeim/Yoon (2015)
(Harvard Business School)

Materiality: Corporate Understanding

Sustainability is a top 3 priority for CEOs globally

Sustainability's strategic position on the CEO agenda



Harvard Business Review's list of Top 100 CEOs includes an assessment of company ESG performance – a key signal of *escaping the lure of short-termism*

Materiality: Corporate Understanding

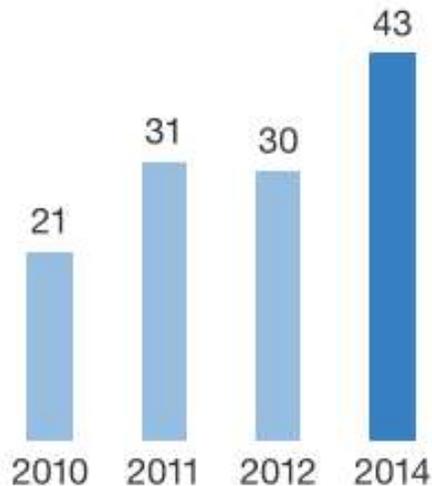


More and more companies are addressing sustainability to align with their business goals.

Top 3 reasons that respondents' organizations address sustainability²

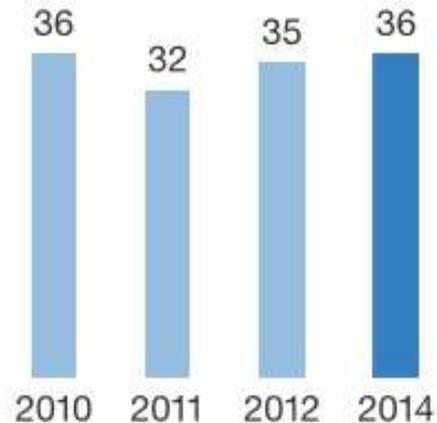
Alignment

Align with company's business goals, mission, or values³



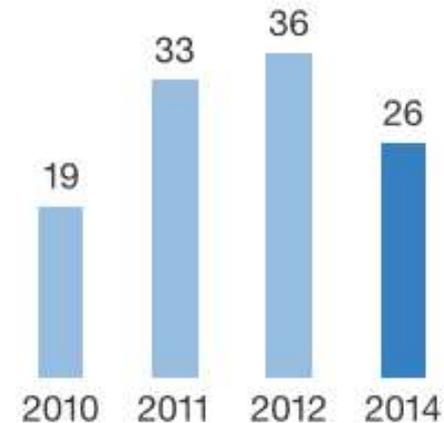
Reputation

Build, maintain, or improve corporate reputation



Cost cutting

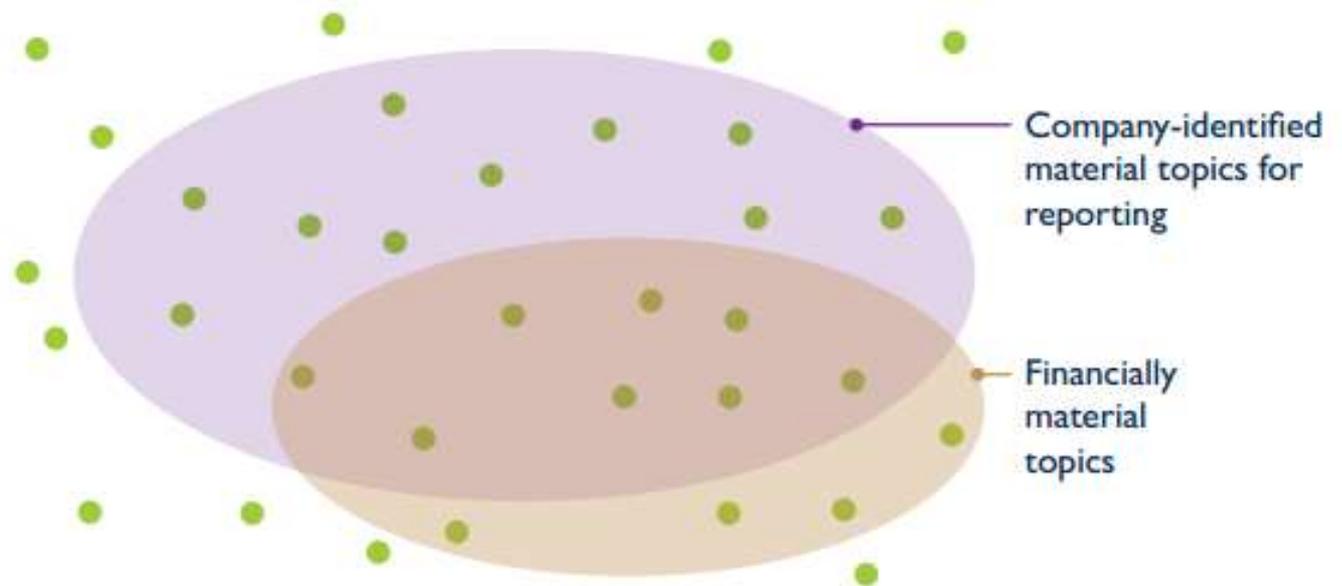
Improve operational efficiency and lower costs



Disclosing what's Material



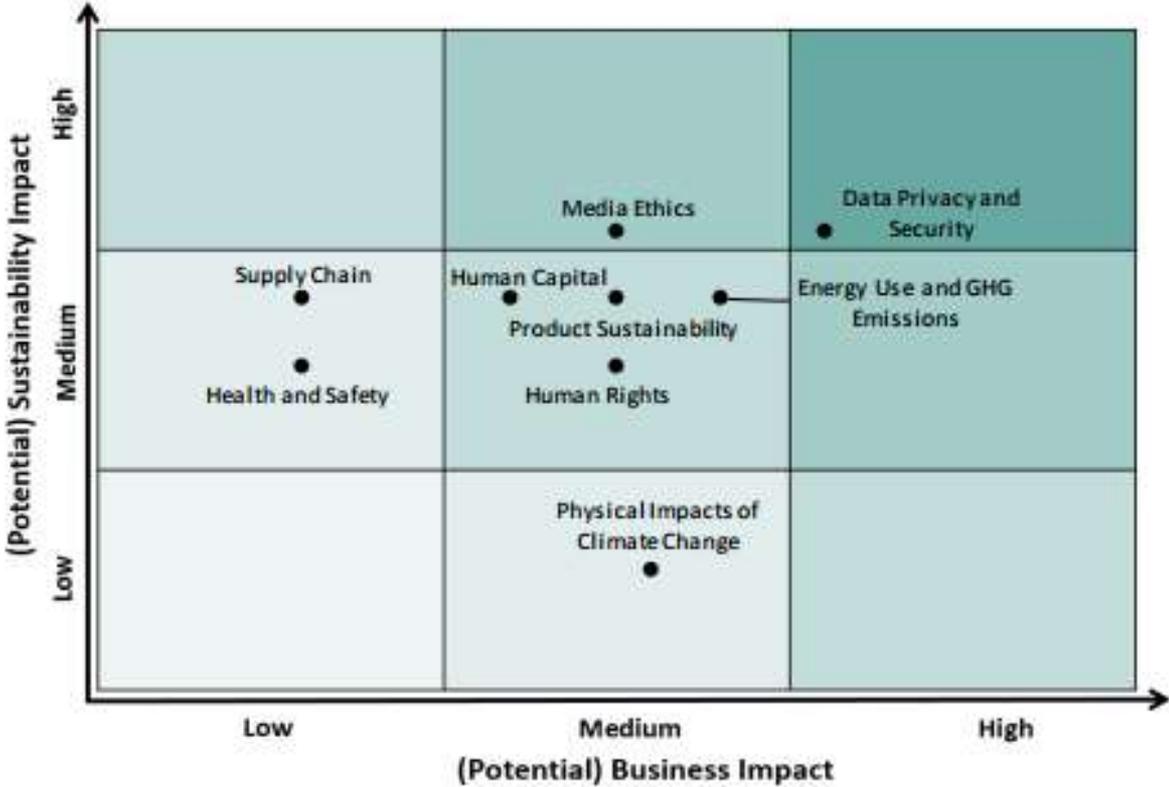
Materiality is defined by impact on enterprise value and the question of whether knowledge thereof would have altered the decision-making of a reasonable investor.



- Source: Defining What Matters, GRI

Measuring What's Material

Materiality Matrix – Telecom



- Key ESG issue
- Other relevant ESG issues

• Source: Sustainalytics Sector Report, Telecom

Measuring What's Material

Key ESG Issue	Indicator Name	Company Score (out of 100)	Peer Group Average	Leading Practice Average ⓘ	Leading Practice Gap ⓘ
Data Privacy and Security	Data Privacy Policy	100	45	88	●
	Privacy Events	Category 3	Category 0	Category 0	●
Human Capital	Freedom of Association Policy	75	52	100	●
	Discrimination Policy	50	40	72	●
	Diversity Programmes	100	29	75	●
	Collective Bargaining Agreements	75	40	88	●
	Employee Turnover Rate	0	15	59	●
	Labour Relations Events	Category 3	Category 0	Category 0	●
Energy Use and GHG Emissions	Carbon Intensity Trend	0	14	56	●
	Renewable Energy Use	0	27	99	●
	CDP Participation	100	39	100	●
	Scope of GHG Reporting	100	49	100	●
	GHG Reduction Programme	100	51	100	●
	Renewable Energy Programmes	40	26	66	●
	Carbon Intensity	0	30	94	●
	Energy Use and GHG Emissions Events	Category 0	Category 0	Category 0	●

● A negative to +25 point gap or Event Category 0-2

● A 26-74 point gap or Event Category 3

● A 75+ point gap or Event Category 4-5

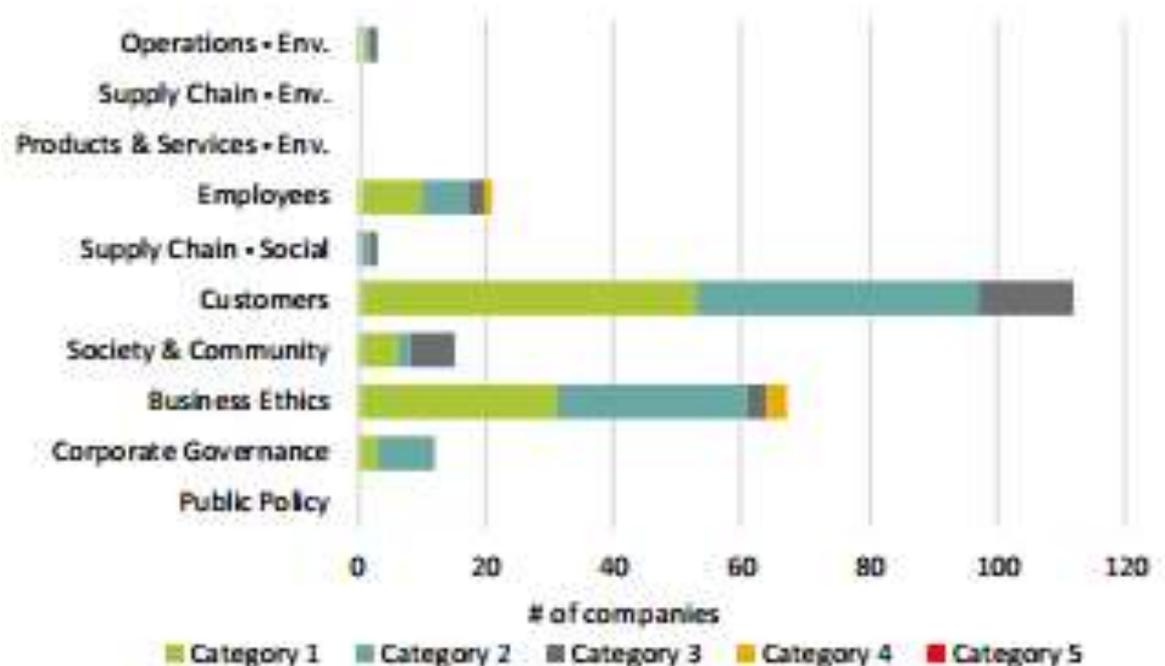
- Source: Sustainalytics Company Report (Telecom)

Measuring What's Material

Controversies

Key considerations:

- Degree of exceptionality
- Sphere of influence
- Level of recurrence
- Company response
- Managerial responsibility
- Overall policies and management systems



“It takes twenty years to build a reputation and five minutes to ruin it.” Warren Buffet

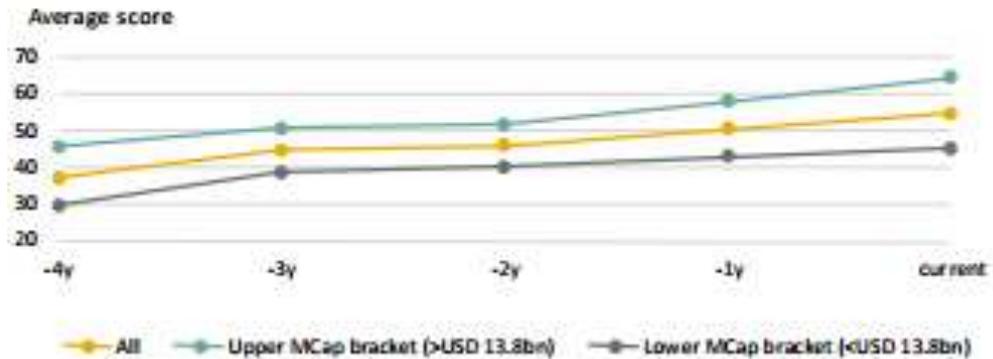
The Story Behind the ESG Data

ESG Data: Preparedness & Performance

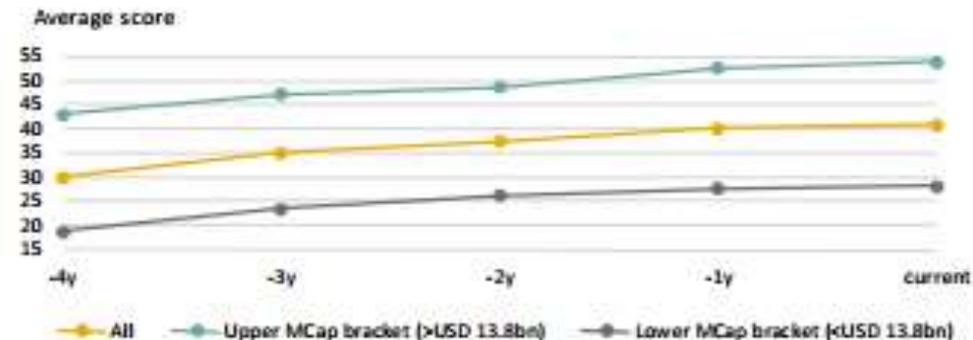


ESG Data: Preparedness

Disclosure



Preparedness

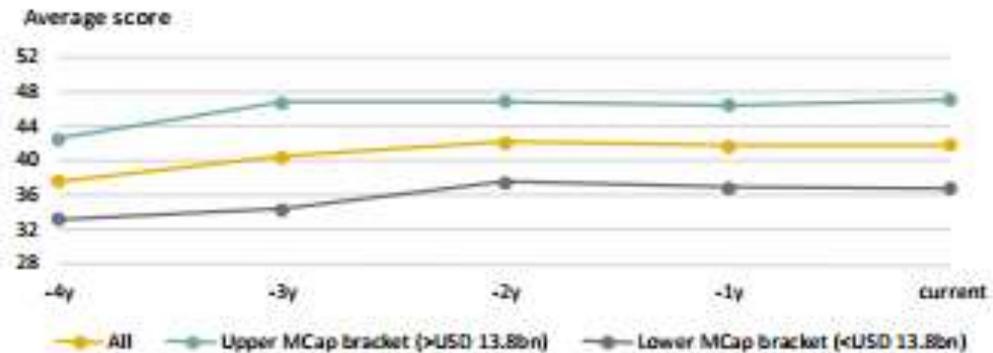


- Steady increase in momentum of ESG disclosure & preparedness, due in part to regulatory developments
- Larger cap companies in developed markets score considerably higher
- Emerging markets uptake of sustainability is on the rise

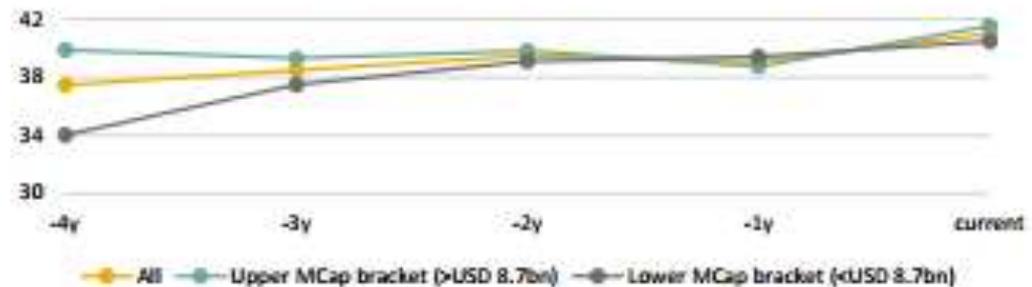
• Source: Sustainalytics Sector Report, Telecom

ESG Data: Quantitative Performance

Telecom



Food & Staples
Retailing

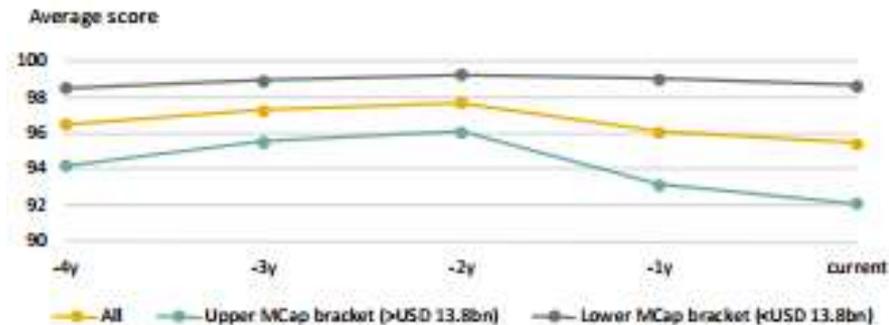


- Quantitative performance is subject to more industry variability
- Environmental metrics are more consistently measured and reported than social KPIs
- Large cap/Developed market bias is closing in some sectors, while persisting in others

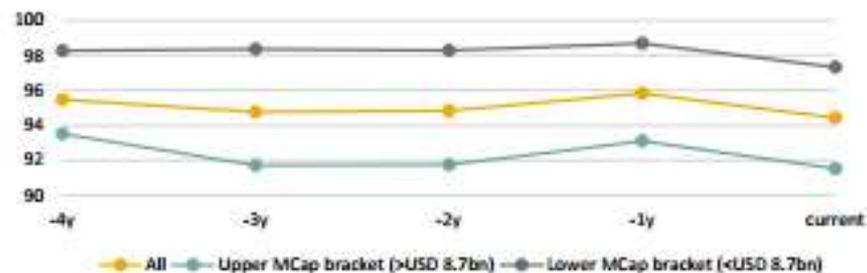
• Source: Sustainalytics Sector Reports

ESG Data: Qualitative performance

Telecom



Food & Staples



- Increased public awareness of scrutiny on ESG/sustainability issues
- Information spreads faster than ever, via social and mainstream media
- NGOs systematically target financial institutions on their investments

Discussion topics

Academic collaboration



- **Data challenges:** How to maintain consistent and comparable data sets in the wake of ongoing innovation
- **Mainstreaming Responsible Investment in academia:** Integration in Finance departments and MBA programs
- **Emerging fields of inquiry:** Leveraging ESG and controversy data in new areas of research
- **Collaboration opportunities:** How can academics collaborate more closely with Responsible Investment industry
- Other...



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