IR Society Survey:

Insights into current ESG reporting practices

September 2019

INTRODUCTION AND SUMMARY

With the rising interest in ESG, the IR Society recently conducted a short survey of its IRO members asking for views around current reporting practices. Here, we summarise some of the key findings – which are detailed over the following pages.

- Of all the IRO members surveyed across all indices, FTSE 100, FTSE 250, Small-cap and AIM, **only a small proportion of the IR Society small-cap membership responded**, with feedback suggesting they are not ready or resourced to consider their approach to ESG within IR.

- A clear majority of members responded that they have a sense of which ESG issues are considered financially material to their business. However, **it is still a work in progress for companies to articulate long-term value creation**, with only 13% of respondents having fully incorporated ESG factors into their investment story.

- In terms of ESG factors identified and used, responses suggest there is a wide range of metrics considered. However, there is **a strong focus on environmental factors** rather than overarching governance factors.

- Survey respondents **overwhelming agreed there is a need to improve disclosures around ESG communications** in the next 1-3 years, and positive steps are being taken already by many (60%) to improve disclosure. However 40% either do not yet see the need or are only just beginning to consider improving disclosures to investors.

- Almost half of the respondents haven't incorporated investor views in an ESG **materiality assessment process**. This could perhaps indicate that there is a disconnect between investor expectations and what companies are communicating.

- There was a **broad spectrum of sustainability framework standards** that companies consider in their reporting, with CDP, UN SDGs and GRI being the most well-known ones. In addition, feedback suggested there are a plethora of ESG ratings agencies conducting company analysis, the most well-known and most important ones being MSCI and Sustainalytics.

- Despite the increasing number of rating agency surveys and requests for company ESG disclosures, a surprising 41% of those IROs surveyed haven't discussed the analysis process with their top investors yet. Survey respondents also highlighted their frustrations with some rating agencies' research being factually incorrect, out of date and the lack of right to reply.

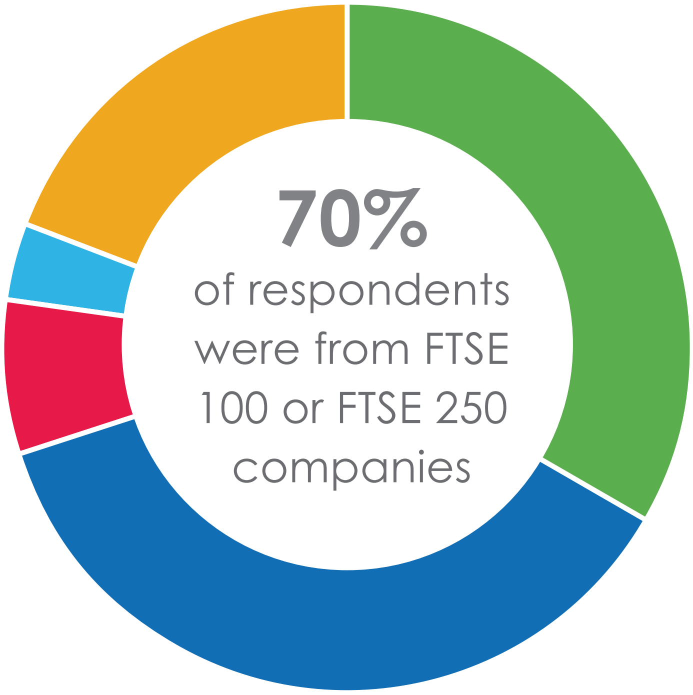
Laura Hayter
Head of policy and communications, The Investor Relations Society.
Contact: laura.hayter@irsociety.org.uk or call + 44 (0) 20 7379 1763

OVERVIEW OF SURVEY RESPONDENTS

Which index is your company listed in?

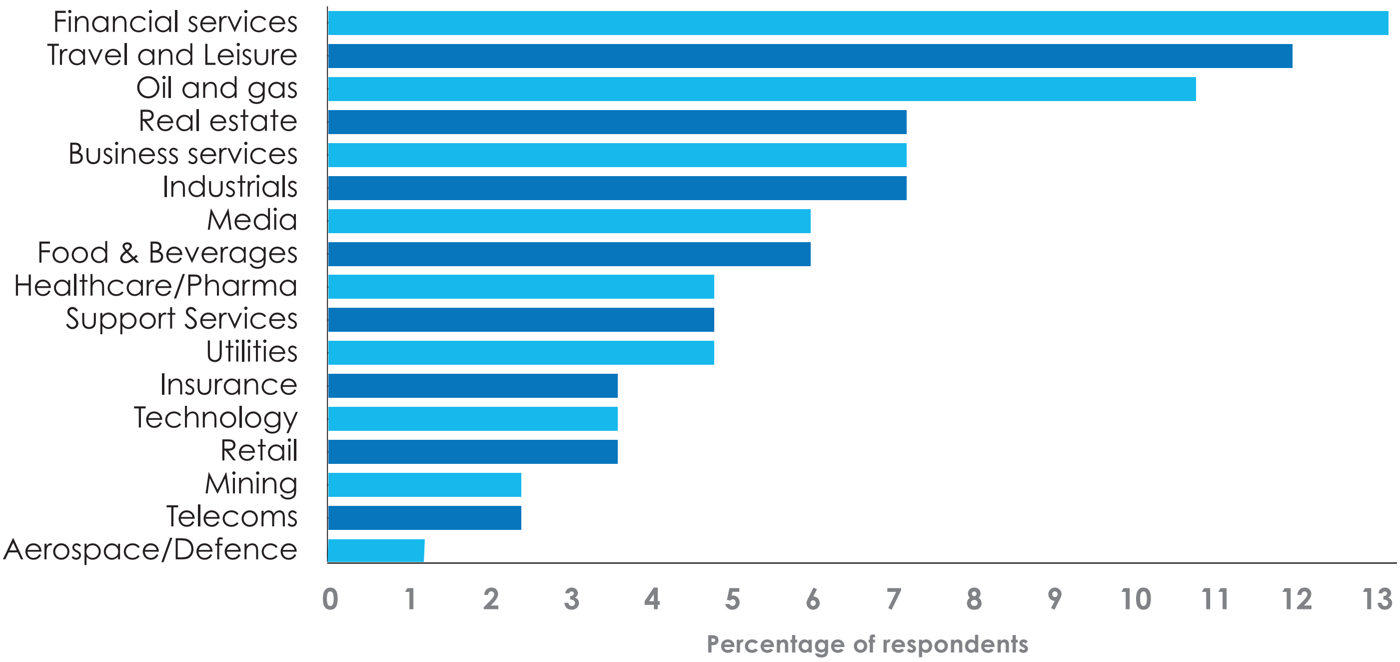
The majority of survey respondents were FTSE 100 or FTSE 250 with only 7% of the IR Society small–cap members responding.

- FTSE 100 – **33%**
- FTSE 250 – **37%**
- FTSE Small Cap – **7%**
- AIM – **4%**
- International – **19%**



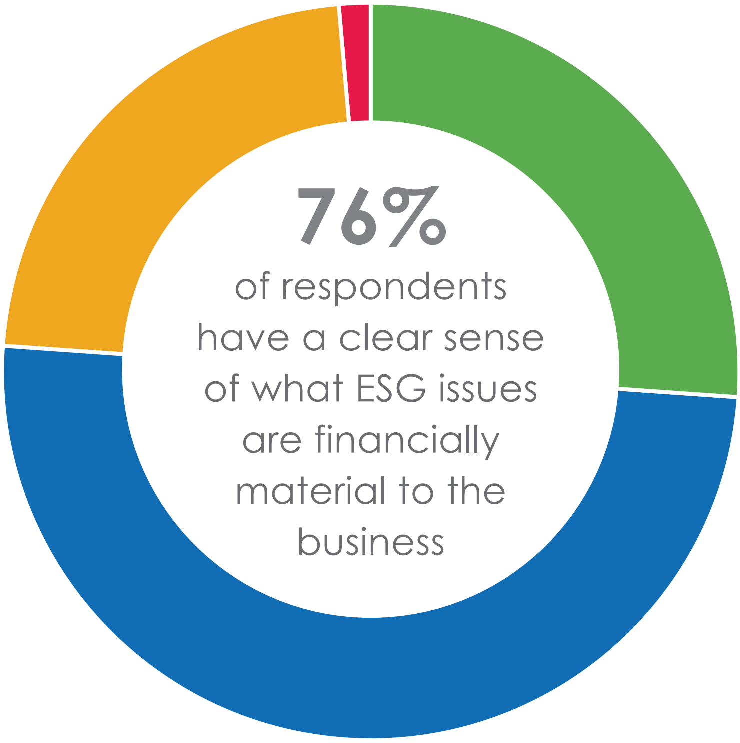
Which sector does your company operate in?

IROs who responded were drawn from the following sectors:



Do you agree with the following statement? ‘My company has a clear sense of what ESG issues are considered financially material to our business.’

- Strongly agree – **26%**
- Somewhat agree – **50%**
- Somewhat disagree – **23%**
- Strongly disagree – **1%**



To what extent is your company able to articulate its long-term value creation strategy to investors by identifying ESG factors that have real and quantifiable impacts on your business?

13% Yes, ESG factors are extensively considered important and fully incorporated into how we articulate our long-term value creation story to investors.

23% Yes, ESG factors are considered important although lack the tools or information to articulate as part of our long-term value creation strategy to investors.

55% Yes, ESG factors are considered important and tools and technique are currently being developed to better understand and incorporate as part of our long-term value creation story to investors.

9% No, ESG factors are not considered important to our long-term value creation strategy to investors.

There was a wide variety of qualitative responses to this answer in terms of type of factors used:

Selected responses:

“ We consider a range of factors now, however they form part of our CSR agenda rather than explicitly ESG factors, so we are looking how to drive this focus. Out of the three factors, our environmental reporting requires the most work as we believe it will require external parties to assist with reporting.

“ Our business strategy consists of three long-term priorities: Innovation, Performance and Trust. We use a set of 10 corporate KPIs to measure these, including employee engagement and supply service levels. We demonstrate performance against trust through 13 commitments which cover a range of ESG factors.

“ We think about value selling (products with sustainability benefits, eco premium solutions, also in developing innovative solutions within the sector) and resource efficiency (waste, water, carbon footprint reduction), when considering ESG factors in our reporting.

“ We discuss a wide range of ESG factors in our annual Corporate Responsibility report. These include (i) our ability to meet the needs of the users of our products in a safe, reliable and innovative way, (ii) our ability to adapt and enhance our products and supply chains to reflect environmental challenges such as climate change and single-use plastics and (iii) implementing an inclusive and engaging culture for employees to ensure we attract and retain the best talent.

“ We consider governance and environmental factors. Our social impact is not meaningful beyond our contribution to the development of new technology and IP or supporting an increasing role of women in the technology sector. Maintaining a strong skill pipeline is also a very important value creation factor in our industry.

“ We have a short ESG passage in our annual report but we tend to rely on ESG rating agencies.

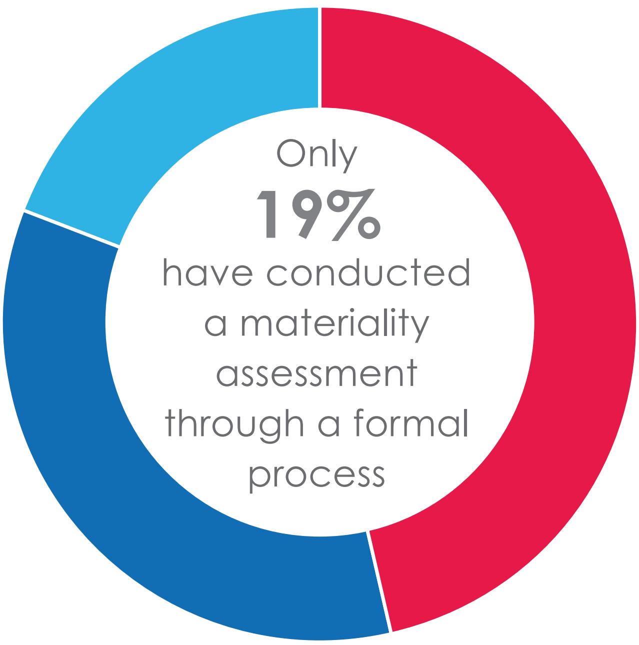
“ We use the Four UN Sustainable Development Goals (SDGs): Good Health and Wellbeing; Clean Water and Sanitation; Industry, Innovation and Infrastructure; Sustainable Cities and Communities. These are SDGs where we can have an impact given the nature of our business.

“ We use a range of metrics including transition to a sustainable low carbon economy, diversity, tackling social disadvantage, building capability and digital skills, supporting business, and helping people save.

Do you see a need to improve your company's disclosures to investors on material ESG topics over the next 1-3 years?

- No, not at all – **4%**
- Yes, it's something we are beginning to think about, but haven't improved disclosures yet – **35%**
- Yes, we are beginning to improve disclosures – **46%**
- Yes, we have significantly improved disclosures – **15%**

Has your company incorporated investor views in an ESG materiality assessment process?



- No – **46%**
- Yes, informally – **35%**
- Yes, through a formal process – **19%**

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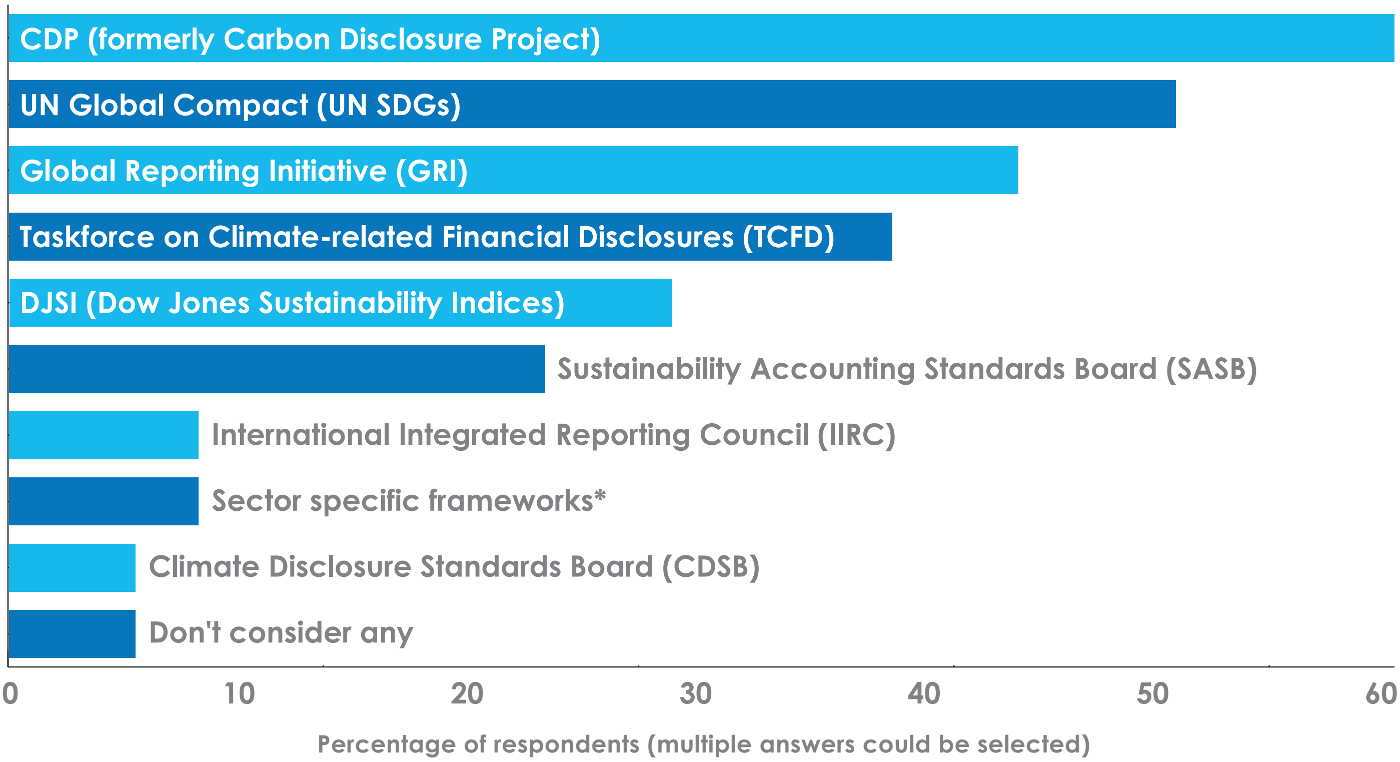
t: +44 (0) 20 7379 1763 | enquiries@irsociety.org.uk | www.irsociety.org.uk

Which sustainability framework standards do you consider in your reporting?



*Sector specific frameworks were referenced in the real estate sector.

Which of the following ESG rating agencies have you heard of or have been surveyed by?

82% MSCI

79% Sustainalytics

48% ISS ESG

47% FTSE ESG

39% RobecoSAM CSA

36% Bloomberg ESG data service

34% Vigeo Eiris

27% Thomson Reuters ESG

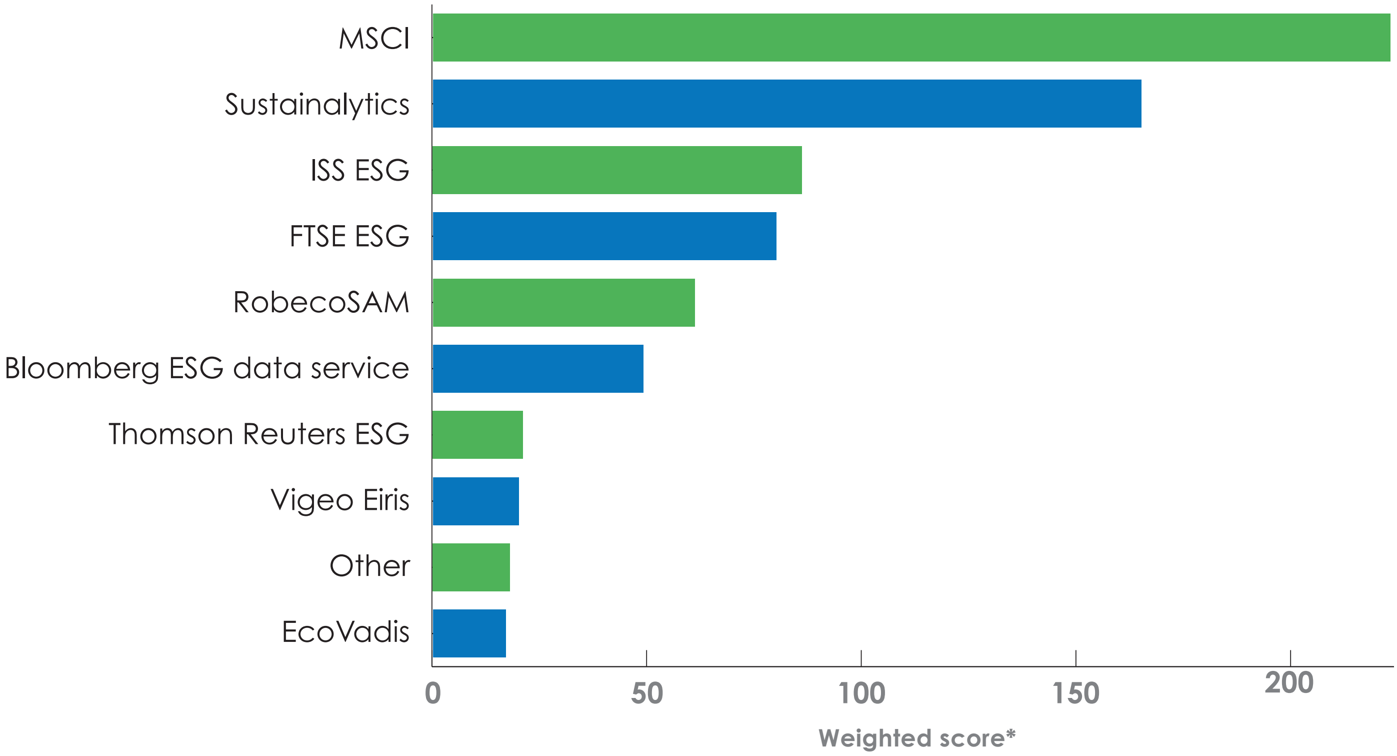
18% EcoVadis

14% Other*

*A small number of respondents referenced Oekom – now part of ISS. Others mentioned: Morningstar, Corporate Knights and real estate specific raters.

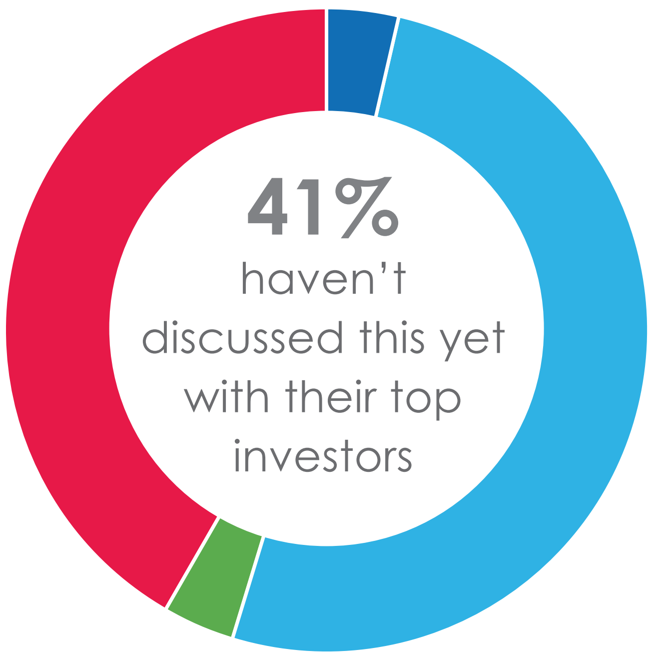
Which of the following ESG rating agencies' methodology are you most convinced by or rating is most important to you?

Participants ranked their top 5 picks from 1 to 5, with 1 being the most significant and 5 being the least significant. *The figures below rank the raters using a weighted score (eg. 5 points for a 1st place vote, 4 points for a 2nd place vote, etc.)



How do your top 20 shareholders conduct analysis on ESG?

- The majority utilise ESG rating agencies reports – **4%**
- They are broadly split between using ESG rating agency reports or their own in house analysis – **51%**
- The majority use their own use in-house analysis – **4%**
- This isn't an area we have discussed with our investors – **41%**



Participants were asked to comment on the previous question

Selected responses:

“ They seem to screen using agencies (primarily MSCI and Sustainalytics) and then do their own in-house research.

“ We have not had in-depth discussions with investors on this yet. The ones who are talking more about it are the ones which have built their own platforms. The rest are quieter on the subject and our intimation is that they overlay some of their own analysis on the ratings agency of ESG reports.

“ North American quants and indexers tend to use ESG agencies (with some exceptions); UK & European shareholders tend to conduct more in-house analysis albeit having been informed by the rating agency reports.

“ The majority actually start with the ESG rating agency and then layer their own analysis on top of that.

“ I don't believe we have received a single direct ESG-related enquiry from a top 20 investor in the last 2 years. Also, we are increasingly frustrated by the very poor quality of analysis by several of the ESG rating organisations. It is largely rigid, box-tick with little understanding of how these issues are managed in a company in reality.

“ My concern is that the analyses by rating agenices are in danger of providing a misleading impression of company performance and that investors are not questioning the quality of this analysis they are fed. They take a huge amount of time to deal with and this year we experienced the frustration of two of the analysts sending us their assessments of us (based on public information) to verify within a week of our publishing our 2018 CR report. Therefore the analysis was precisely 12 months out of date (based on our 2017 CR Report) and so highly misleading. This led us to have to correct almost every question or risk this being sent to our investors / potential investors.

“ From conversations with our shareholders, the most common approach seems to be a hybrid approach between rating agencies and in-house analysis.

“ Many use one or two reports as a base, and then conduct their own analysis. Some focused ESG funds only do their own analysis.

CONCLUSION AND IR SOCIETY POLICY COMMITTEE VIEW

- Companies are recognising that environmental, social and governance factors are increasingly important to all stakeholders, along with the need for clearer articulation of long-term value creation.
- There is insufficient communications between investors and corporates on reporting expectations and how investors are analysing ESG information.
- Companies are aware of the increased need for the inclusion of ESG factors in their reporting but are at an early stage in their understanding of how to respond.
- With the large variety of ESG frameworks and plethora of rating surveys, there is little consistency in disclosure standards and this lack of standardisation is confusing for companies.
- Companies are concerned about the explosion of ratings agencies getting between companies and investors. Companies prefer direct contact and engagement on ESG issues.

Contributed by The IR Society Policy Committee
Emma Burdett, Chair of The IR Society's Policy Committee
Laura Hayter, Head of Policy & Communications, The IR Society

ABOUT THE INVESTOR RELATIONS SOCIETY

The Investor Relations Society's mission is to promote best practice in investor relations; to support the professional development of its members; to represent their views to regulatory bodies, the investment community and government; and to act as a forum for issuers and the investment community.

Our vision is to be the focal point in the UK for investor relations practice and IR professionals and to promote best practice in investor relations generally.

For more information about the Investor Relations Society, visit www.irsociety.org.uk