



Research Report Measuring E&S

An analysis of investors' and IR professionals' views and opinions on E&S data providers

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Introduction

What is in the report?



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Introduction

Interest in and discussion of ESG is a hot topic for investors and corporations. Governance reporting is well established, both in terms of expectations and firms' disclosures. But is this the case when it comes to environmental and social issues? A central tenet of investor relations is owning and managing a company's equity story. Increasingly E&S issues have an influence on this, as do the variety of E&S data providers that combine analysis of issuers' disclosures with proprietary research to present a picture of companies' performance.

In this report, we examine the regional and cap size differences in relation to reporting on E&S issues, as well as investors' thoughts about the quality of the ESG data available to them. We begin by examining the opinions of investors on the importance of ESG metrics, preferred E&S data sources, which E&S data providers they subscribe to and which E&S metrics they consider important. The report then looks at IR professionals' opinions on reporting on E&S issues, engagement with E&S data providers and the accuracy of E&S data providers, as well as the number of completed E&S questionnaires and conversations they cover. Finally, we

compare the opinions of investors and IR professionals on a regional basis.

Data in this report is taken from *IR Magazine's* Global IR Survey of the investment community in Q4 2019 and from our Q1 2020 biannual survey of IR professionals around the world.

For the purposes of this report, the following cap size definitions are used:

SMALL CAP	<\$1 BN
MID-CAP	\$1 BN-\$5 BN
LARGE CAP	\$5 BN-\$30 BN
MEGA-CAP	>\$30 BN



Investor view

What does the investment community think about E&S data?



Investor view

Importance of ESG metrics

Most buy-side respondents find ESG metrics necessary to their investment decisions/recommendations. Globally, nearly nine in 10 rate governance metrics as important, compared with almost six in 10 who place importance on environmental metrics and 57 percent who rate social metrics.

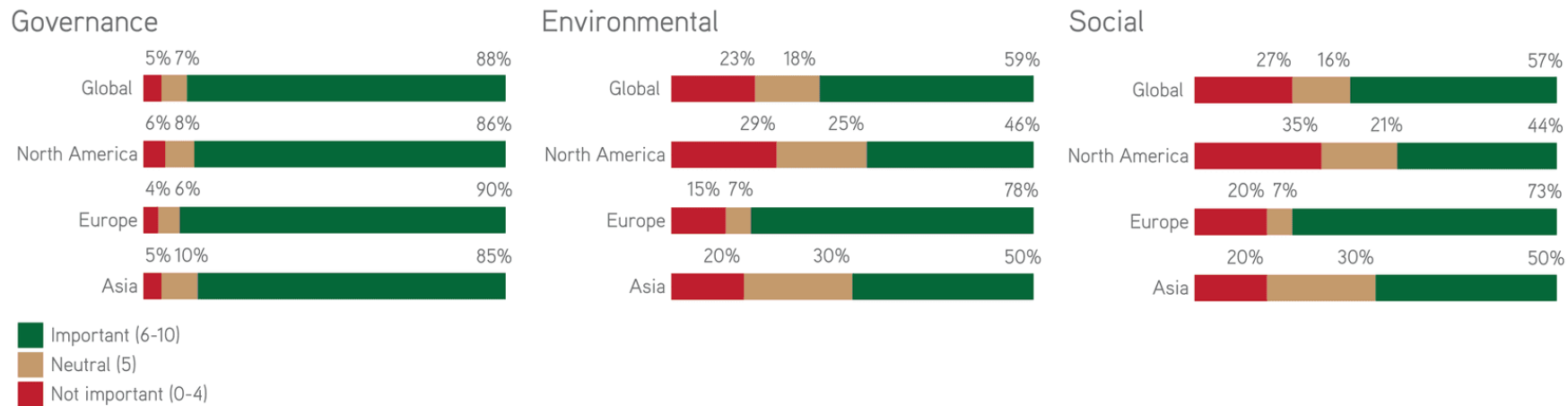
The value attached to governance is similar across the regions, with 90 percent of respondents in Europe, 86 percent of respondents in North America and 85 percent of respondents in Asia rating it as important.

But there is a big regional difference in how buy-side respondents interpret E&S metrics. Nearly eight in 10

respondents in Europe say environmental metrics are important, compared with just 50 percent of respondents in Asia and even fewer in North America, where just 46 percent say environmental metrics are important to their investment decisions/recommendations.

on social metrics follows a similar pattern: more than seven in 10 buy-side respondents in Europe say social metrics are important, while only half the respondents in Asia and 44 percent of respondents in North America say the same.

The importance respondents place



Preferred E&S data sources

We asked buy-side respondents for their comments on preferred E&S data sources in an open question. Responses from buy-side respondents in Asia were too low to be statistically relevant for this question.

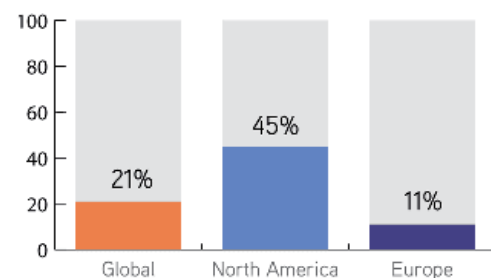
One in five buy-side respondents globally think their firm's proprietary research offers the best methodology for evaluating environmental issues. Respondents in North America are four times more likely than those in Europe to state a preference for their own company's research.

There is a similar pattern with comments on social metrics, with just over a quarter of global buy-side respondents saying their firm's own internal research offers the best methodology. Again, respondents in North America are more likely than their European counterparts to prefer

Which data sources do you use for E&S research?

Own internal

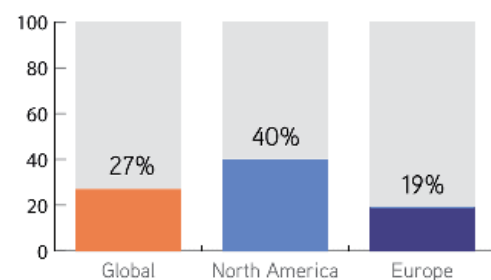
Environmental



Comments

'We do our own internally'
'We use our internal ratings'
'We use our own analysts'
'We use our own in-house work'
'Fundamental, individualized research, because the ranking systems/providers are too often flawed'
'We do it in-house'
'Me - because others focus on the green but forget the ultimate goal of stock analysis, which is to evaluate a company for investment purposes'

Social



Comments

'We do our own internally'
'We use our own proprietary data'
'We use our own internal ratings'
'Our own internal ratings'
'We use our own analysts'
'We do our own in-house work'
'We do it in-house'
'Me - because others focus on the ethics but forget the ultimate goal of stock analysis, which is to evaluate a company for investment purposes'

their own firm's own internal research: 40 percent versus 19 percent.

Data provider subscriptions

The prevalence of E&S data providers has grown significantly in recent years, but not all investors use them. Globally, 42 percent of buy-side respondents don't subscribe to any providers. Regionally, this breaks down to 50 percent in North America, 50 percent in Asia and 33 percent in Europe not using any E&S data sources.

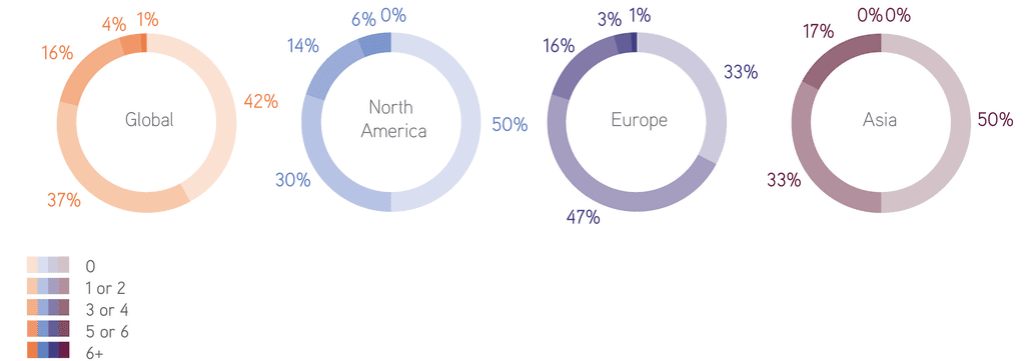
Among the global buy-side respondents that subscribe to E&S data providers, the median number of subscriptions is two. Respondents indicate that they use this data in tandem with other sources or their own internal analysis.

Less than half (44 percent) of global buy-side respondents use E&S data to screen for investment risks, and a similar number (40 percent) use it to screen for opportunities.

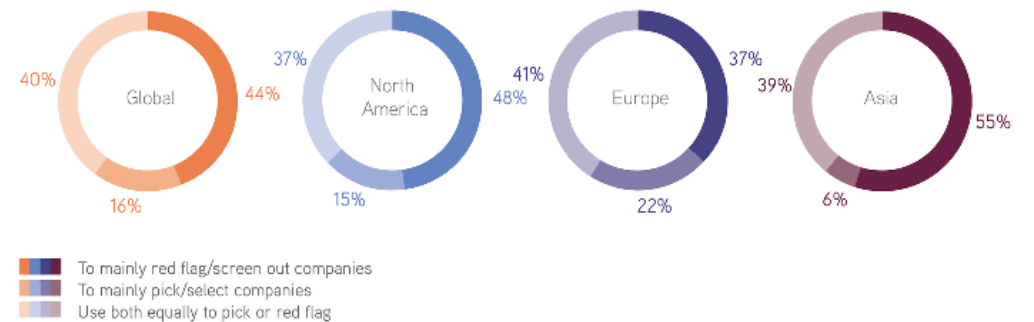
Respondents in Asia (55 percent) and North America (48 percent) are more likely to use E&S data to screen for investment risks than are respondents in Europe, who use E&S data in nearly equal proportions to screen for risk (37 percent) and investigate opportunity (41 percent).

Only a small proportion (16 percent) of global respondents use E&S data to identify opportunities. Respondents in Europe are almost four times as likely as respondents in Asia to use E&S data to identify opportunities, with 22 percent of respondents in Europe and just 6 percent of respondents in Asia using it for this purpose. In North America, only 15 percent of buy-side respondents use E&S data to find investment opportunities.

How many data providers do you subscribe to?



Which of the following are ways in which you use environmental and/or social ratings?



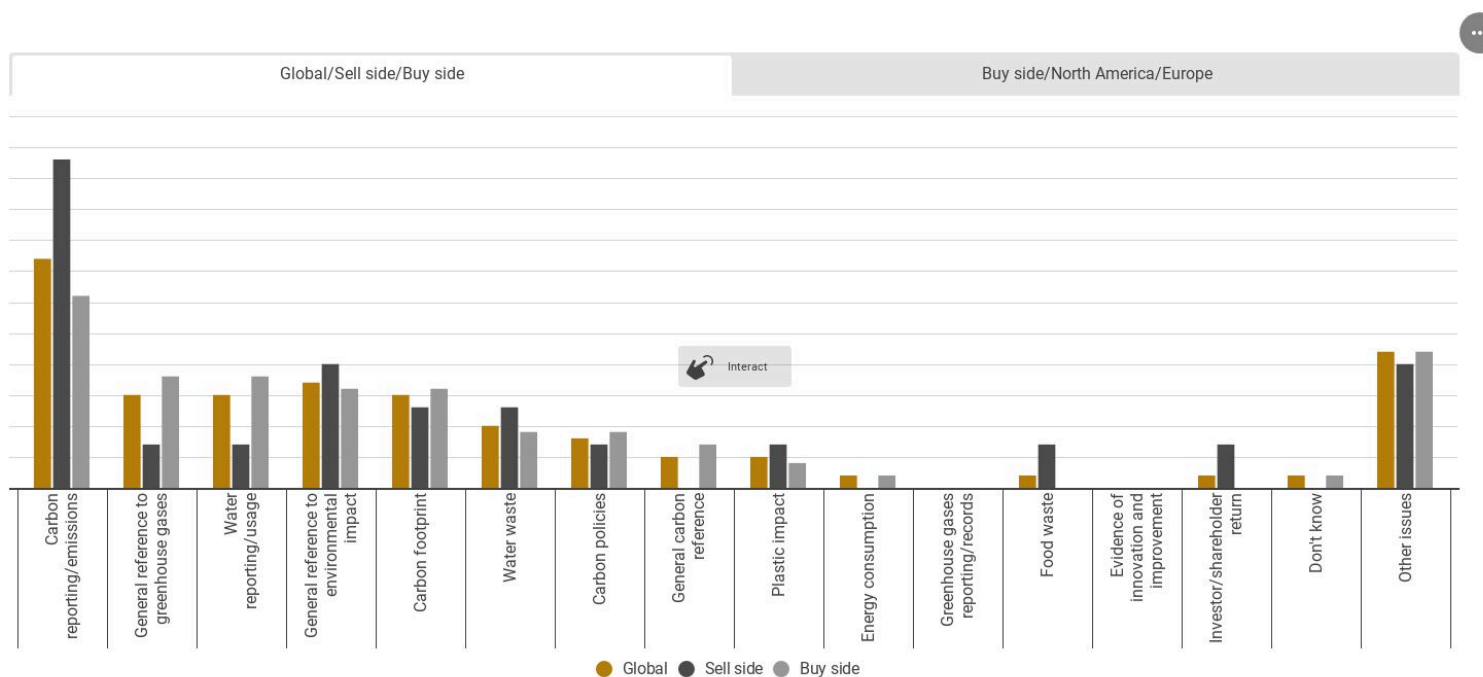
Which E&S metrics matter most?

In seeking to find which metrics matter most to investors, we asked both buy-

side and sell-side respondents. When it comes to environmental metrics, more than half of sell-side respondents look for carbon reporting/emissions in environmental reporting. A fifth also

look for evidence of a firm's environmental impact, while both carbon footprint and water waste receive the attention of 13 percent of sell-side respondents.

The main focus for buy-side respondents in environmental reporting is the same as sell-side respondents: carbon reporting/emissions (31 percent). But buy-siders typically have a wider range of environmental interests, with both greenhouse gas references and water reporting/usage being looked for by 18 percent of buy-side respondents and both environmental impact and carbon footprint being important to 16 percent of buy-siders.



What are the most important concepts/issues/KPIs you look for in environmental ratings?

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Regionally, 44 percent of buy-side respondents in Europe look for carbon reporting/emissions in environmental ratings, more than double the number of respondents in North America who do so. The responses from buy-side respondents in Asia were too low to be statistically relevant for this question.

Sell-side respondents look for risk mitigation concepts in social reporting, with health & safety and labor practices

both cited by 27 percent of respondents, while product safety, employee turnover/retention and CSR are each mentioned by 13 percent of sell-siders.

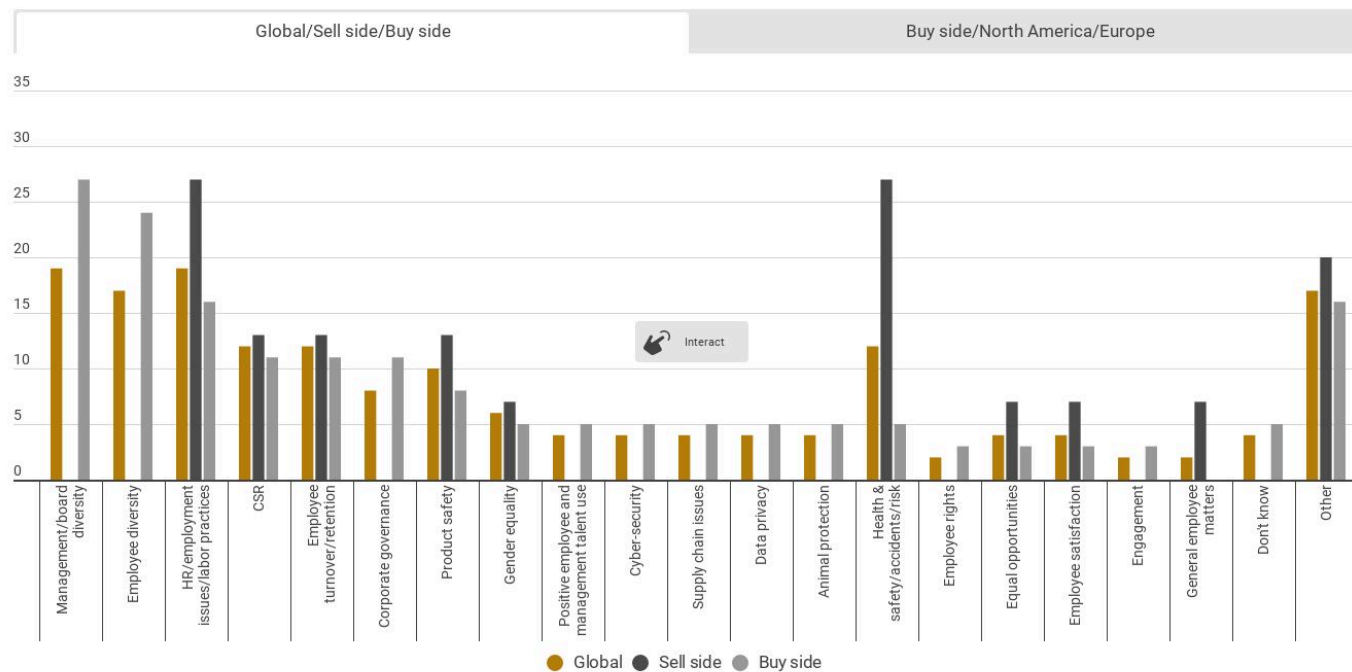
By contrast, buy-side respondents place more importance on management and employee diversity, with just over a quarter of respondents citing management/board diversity

and 24 percent citing employee diversity as important. Buy-side respondents also place importance on a variety of risk metrics: HR employment issues/labor practices (16

percent), employee turnover/retention (11 percent), corporate governance (11 percent) and CSR (11 percent).

Buy-side respondents in North America focus on diversity and governance more than respondents in Europe, with nearly a third citing management/board diversity and nearly a quarter citing employee diversity. A further 23 percent cite corporate governance as important.

The responses from buy-side respondents in Asia were too low to be statistically relevant for this question.



What are the most important concepts/issues/KPIs you look for in social ratings?

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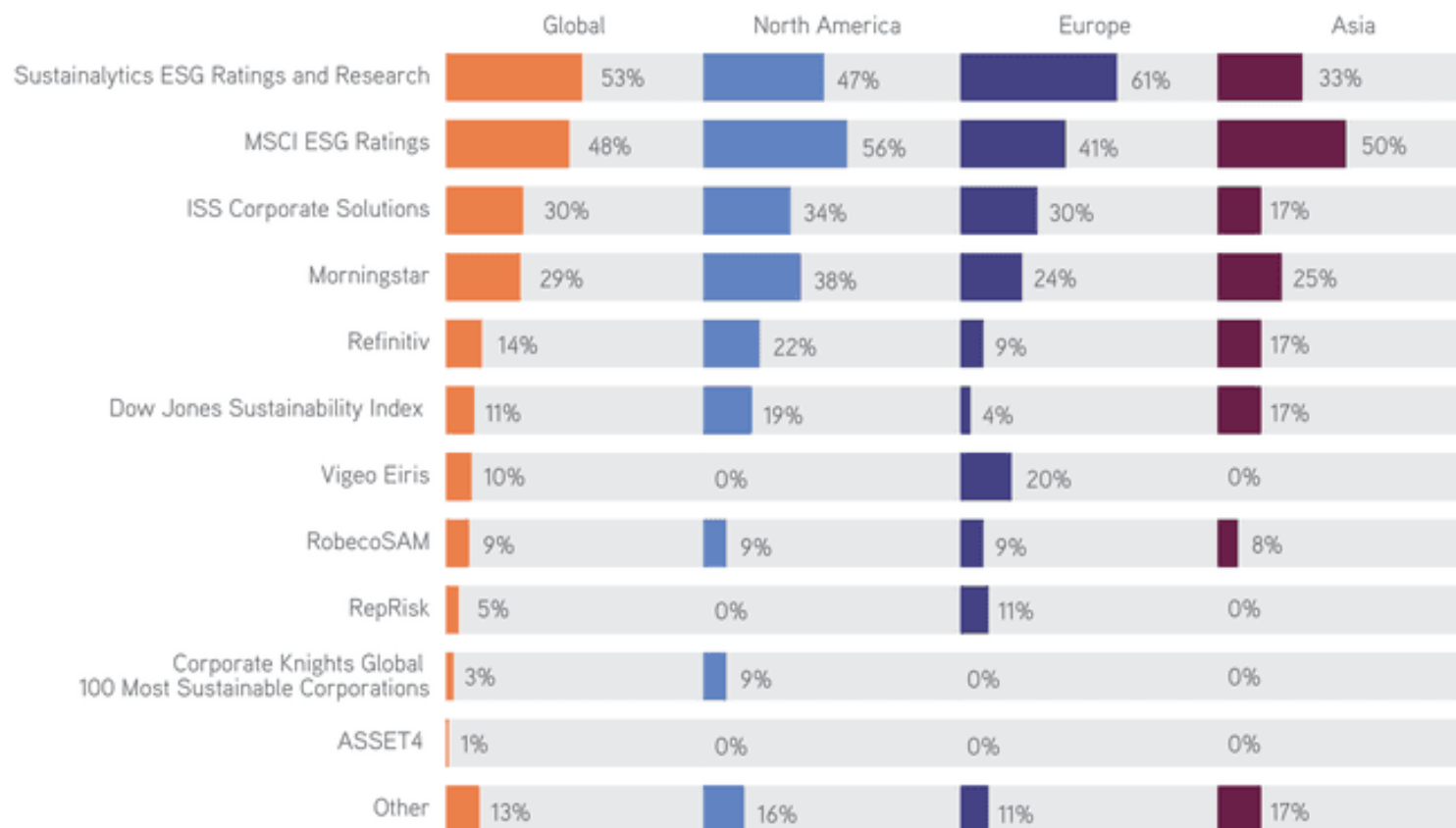
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E&S data providers

As previously mentioned, investors subscribe to a median number of two environmental and social data providers. Just over half of buy-side respondents who subscribe to a provider use Sustainalytics ESG Ratings and Research, while 48 percent subscribe to MSCI ESG Ratings. The other data providers in the top five are ISS Corporate Solutions, used by 30 percent of global respondents, Morningstar (29 percent) and Refinitiv (14 percent).

More than half of respondents in North America and half of respondents in Asia subscribe to MSCI ESG Ratings. There's a strong preference for Sustainalytics ESG Ratings and Research among respondents from Europe, with more than six in 10 subscribing to this provider.

Do you use any of the following ratings agencies for environmental or social assessment?





Investor relations professionals

How IROs interact with investors and E&S data providers



Investor relations professionals

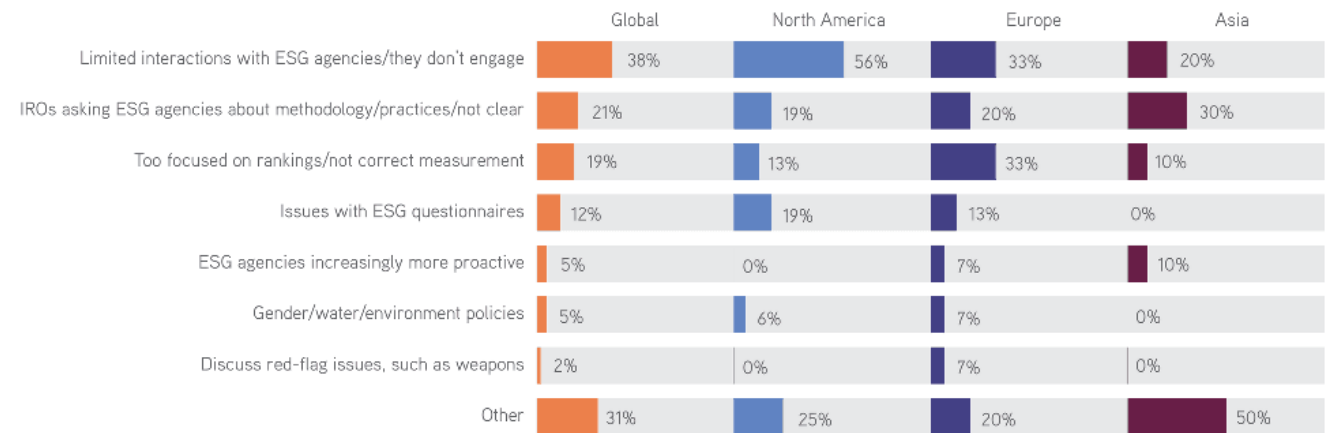
Interaction with E&S data providers

There are differing reports about the amount of engagement that takes place between E&S data providers and issuers. At recent *IR Magazine* events, some issuers have suggested they can maintain a regular dialogue with E&S data providers, while others say it's difficult to know who to contact or how to get a response.

Nearly four in 10 global IR professionals report limited interactions with E&S data providers. More than half of North America respondents don't engage, nor do a third of respondents in Europe and a fifth of respondents in Asia.

One in five global IR professionals engaging with E&S data providers have questions about the providers' methodology. Regionally, just under a third of respondents in Asia, 20 percent of respondents in Europe and 19 percent of respondents in North America have questions about data providers' methodology.

Interactions on environmental or social issues with investors/ESG rating agencies



What companies think they should report on

We asked IR professionals to indicate the most important environmental and social issues their company currently reports on. Just over a quarter of global IR professionals say their company references greenhouse gas (GHG) emissions in its environmental reporting. North American firms are almost twice as likely as European companies to report on GHG emissions (35 percent compared with 18 percent).

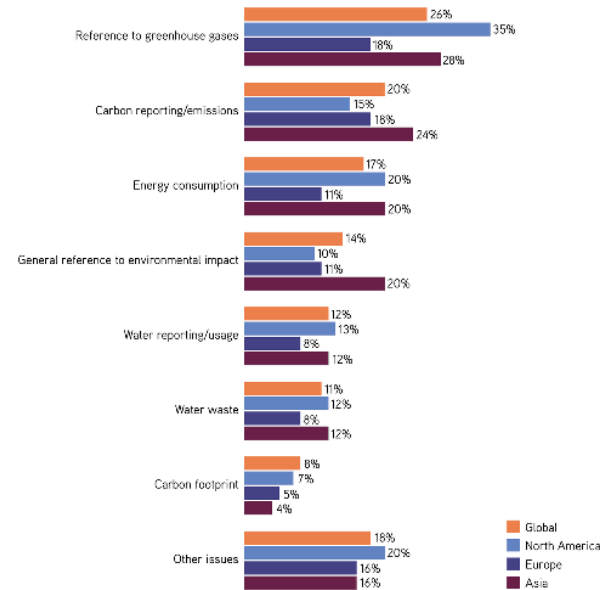
One in five companies globally covers carbon reporting/emissions in their reporting. Just under a quarter of IR professionals in Asia say their company references carbon reporting/emissions, while nearly one in five respondents in Europe say the same. Carbon reporting and emissions are least-cited by respondents in North America (15 percent).

The third-most cited issue is reporting on energy consumption, mentioned by 17 percent of respondents globally. In North America and Asia, one in five respondents cite energy consumption, compared with just 11 percent of respondents in Europe.

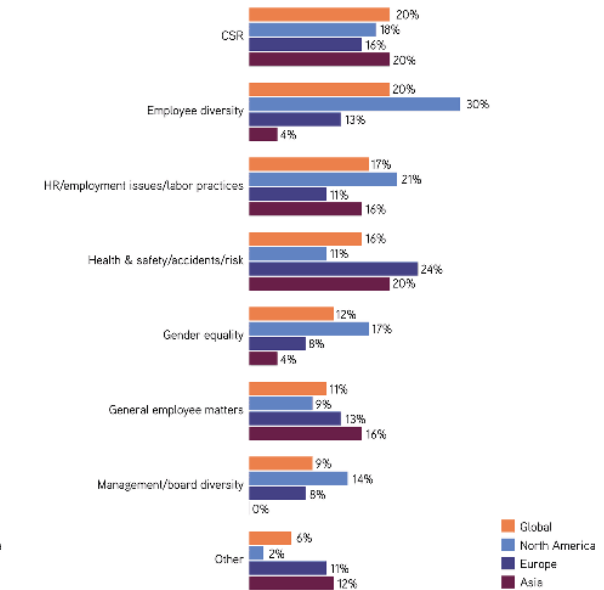
For social reporting, both CSR and employee diversity are cited as most important by 20 percent of global IR professionals. But while this holds largely true across the regions for CSR, ranging from 16 percent in Europe to 18 percent in North America and 20 percent in Asia, the perceived importance of employee diversity diverges more broadly, from just 4 percent in Asia to 13 percent in Europe and 30 percent in North America.

The third-most cited issue for social reporting is HR/employment issues/labor practices, mentioned by 17 percent of global respondents. These issues are of greater concern in North America, where they are cited by 21 percent of respondents, than in Asia (16 percent) or Europe (11 percent).

Which are the most important environmental criteria/issues your company reports on?



Which are the most important social criteria/issues your company reports on?



Who has the most accurate E&S methodology?

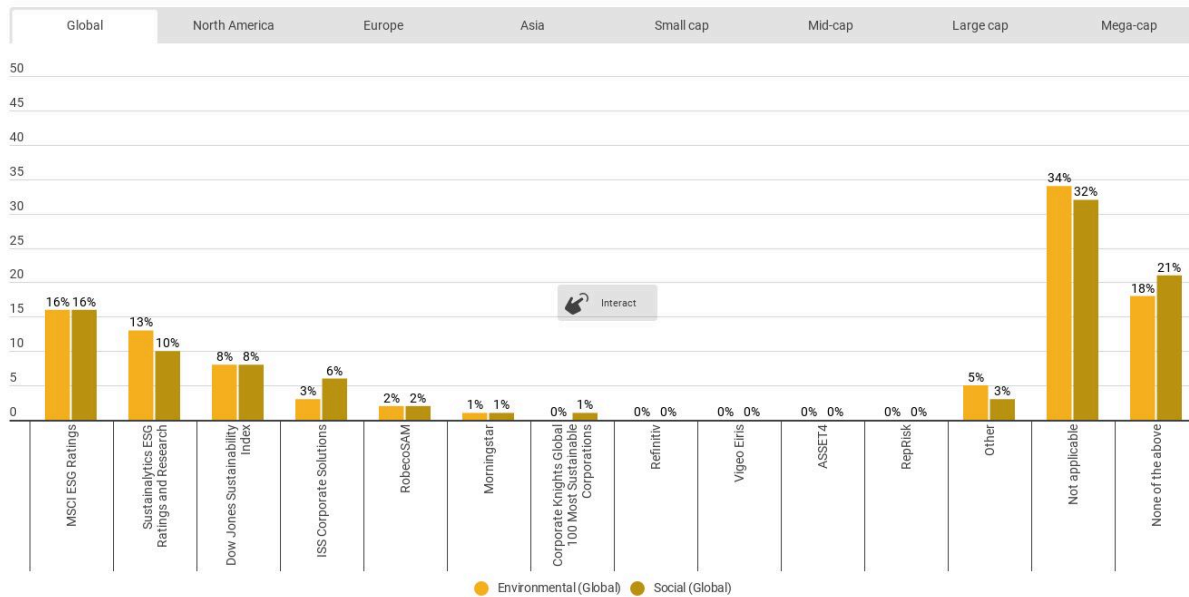
In this section, we asked IR professionals for their comments on the accuracy of the methodologies employed by E&S data providers. Globally, just

under one in five IR practitioners believe no E&S data provider produces accurate environmental data, while just above one in five believe no provider produces accurate social data. This belief is most acute at small-cap companies, where 34 percent cannot identify a reliable provider of social data,

compared with 19 percent of mid-caps, 13 percent of large caps and just 12 percent of mega-caps.

The top five data providers – MSCI ESG Ratings, Sustainalytics ESG Ratings and Research, Dow Jones Sustainability Index, ISS Corporate Solutions and RobecoSAM – are all thought by IR professionals to be well established, transparent about their methodology and ratings, have comprehensive data and engage with companies. The same top five providers are cited by IR professionals for both environmental and social research, although the percentages differ slightly.

IR professionals in Europe rate Sustainalytics ESG Ratings and Research as the most accurate provider of E&S data, while respondents in North America and Asia cite a preference for MSCI ESG Ratings.



Who produces the most accurate environmental/social research?

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Comments

Environmental

MSCI ESG RATINGS

SUSTAINALYTICS ESG RATINGS AND RESEARCH

DOW JONES SUSTAINABILITY INDEX

ISS CORPORATE SOLUTIONS

ROBECOSAM

Social

MSCI ESG RATINGS

SUSTAINALYTICS ESG RATINGS AND RESEARCH

DOW JONES SUSTAINABILITY INDEX

ISS CORPORATE SOLUTIONS

ROBECOSAM

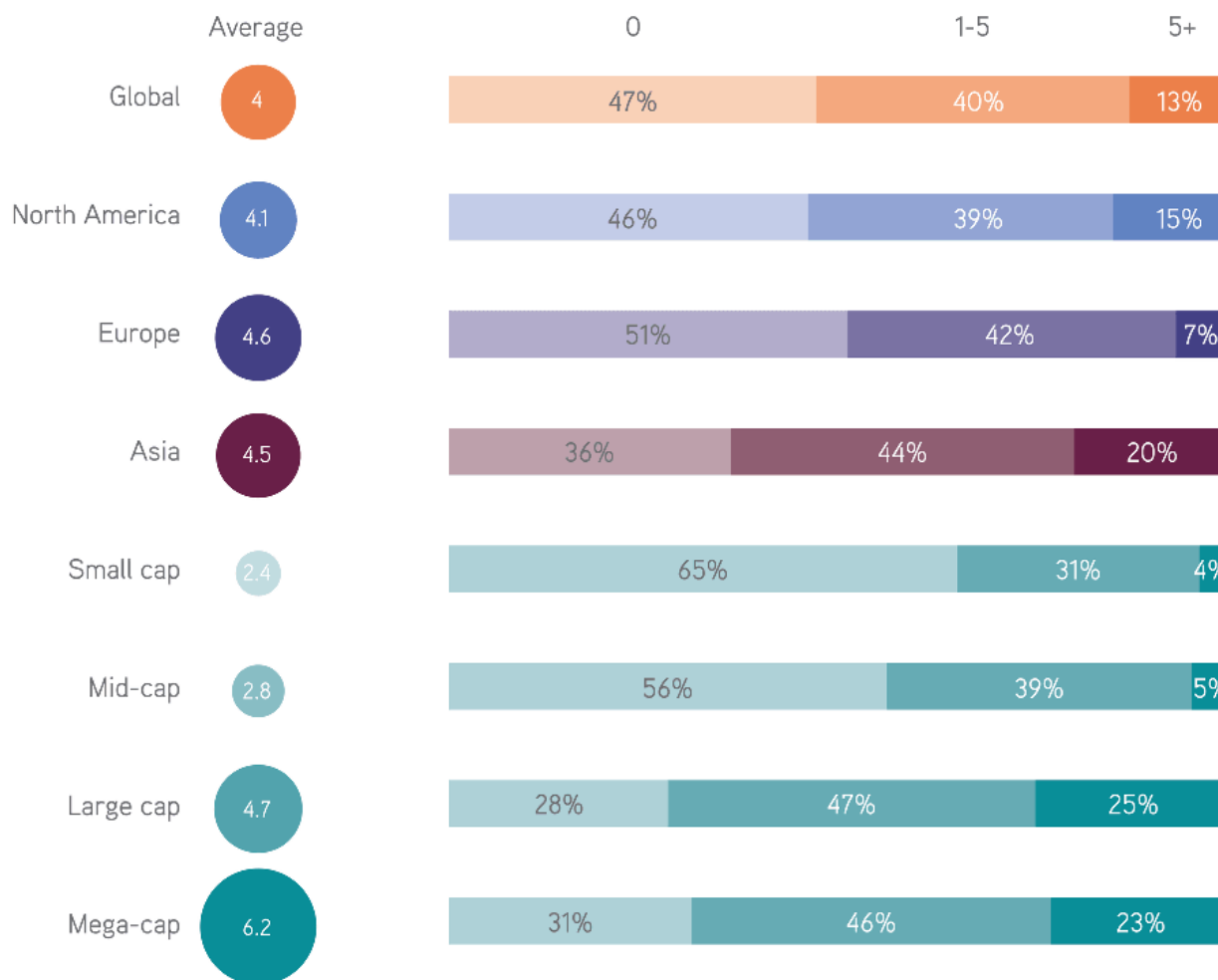
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Number of completed questionnaires

Just under half (47 percent) of global IR respondents indicate they have not completed a questionnaire from an E&S data provider in the last 12 months. This proportion differs regionally, with North America most closely mirroring the global norm at 46 percent and Europe being slightly above at 51 percent. Asia is the outlier with just over a third (36 percent) of respondents not having completed a single E&S questionnaire in the past year.

Mega-cap and large-cap company IR respondents typically complete more E&S questionnaires in a 12-month period than their counterparts at small and mid-caps, with an average of 6.2 for mega-caps, 4.7 for large caps, 2.8 for mid-caps and 2.4 for small-cap companies.

Average number of E&S questionnaires completed in the last 12 months

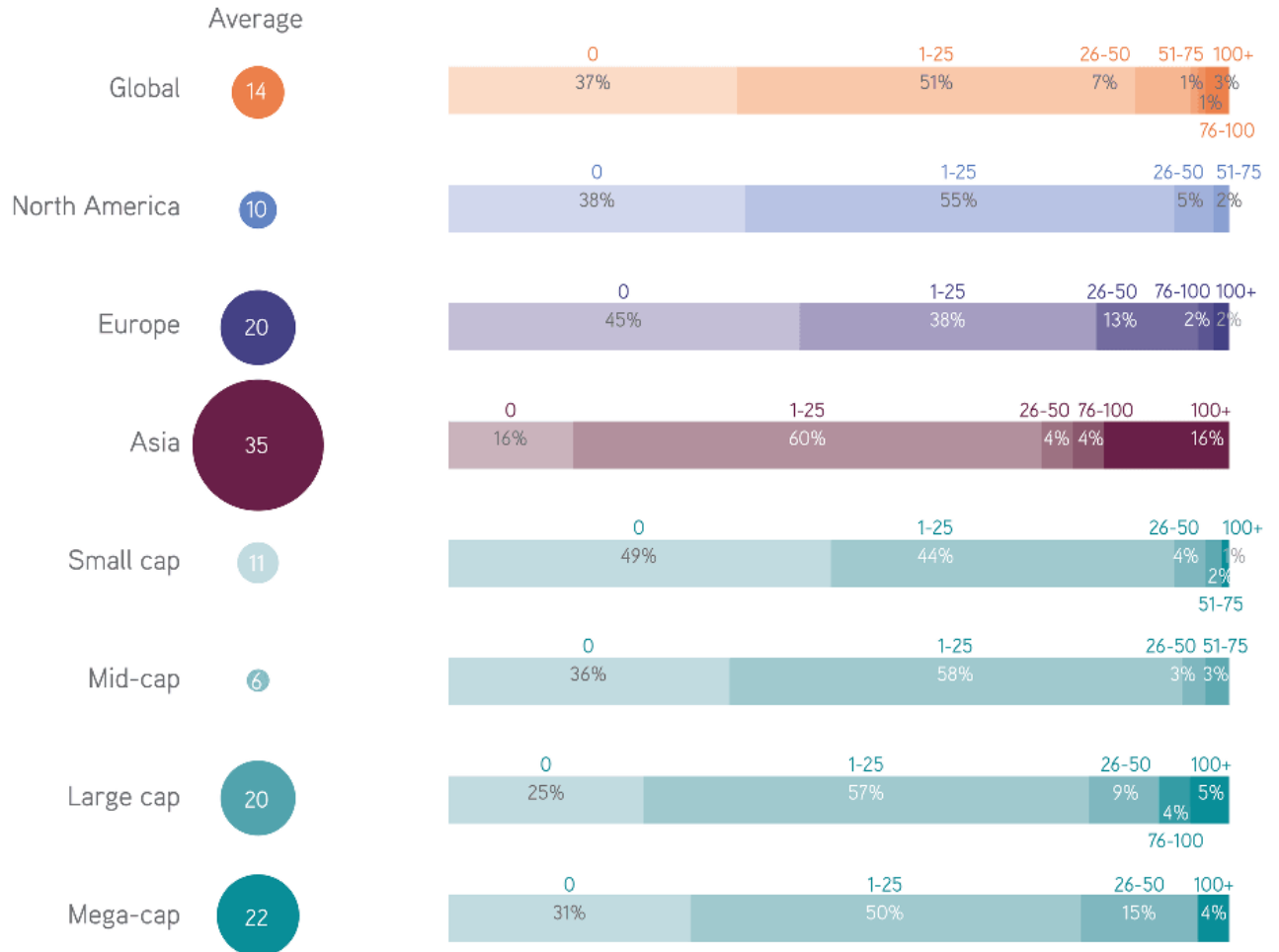


E&S conversations with investors

Nearly four in 10 IR professionals have not had a single conversation on environmental or social issues with investors in the last 12 months. The average number of conversations that were held on these topics differs regionally, with IR professionals in Europe holding more than twice as many environmental conversations as their North American counterparts. Respondents in Asia held the highest average number of conversations on this topic, at 35.

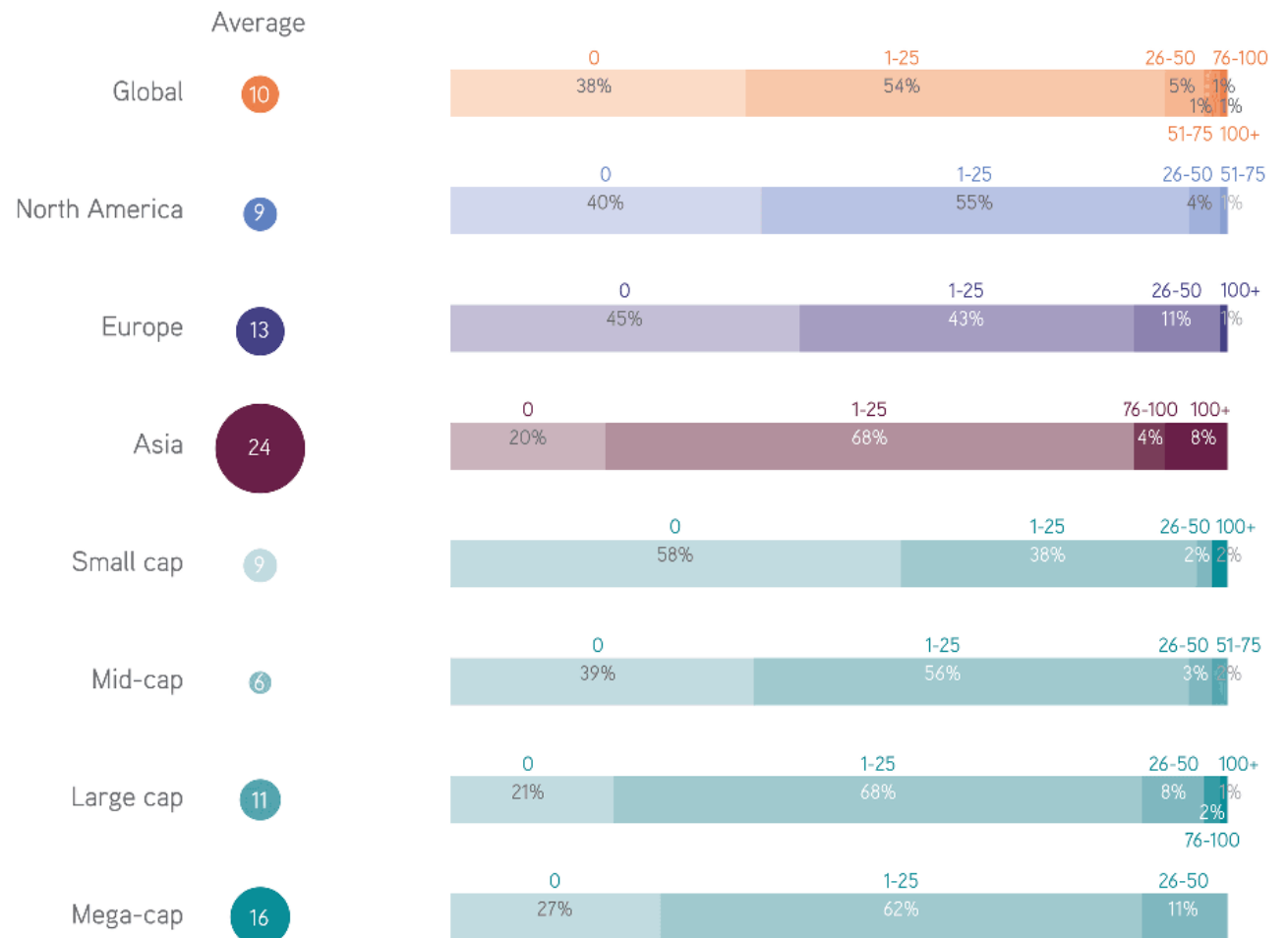
In Europe and Asia, nearly four in 10 IR professionals say investors want to discuss E&S issues more regularly, and nearly a quarter of IR professionals in North America say the same.

Environmental conversations directly with investors



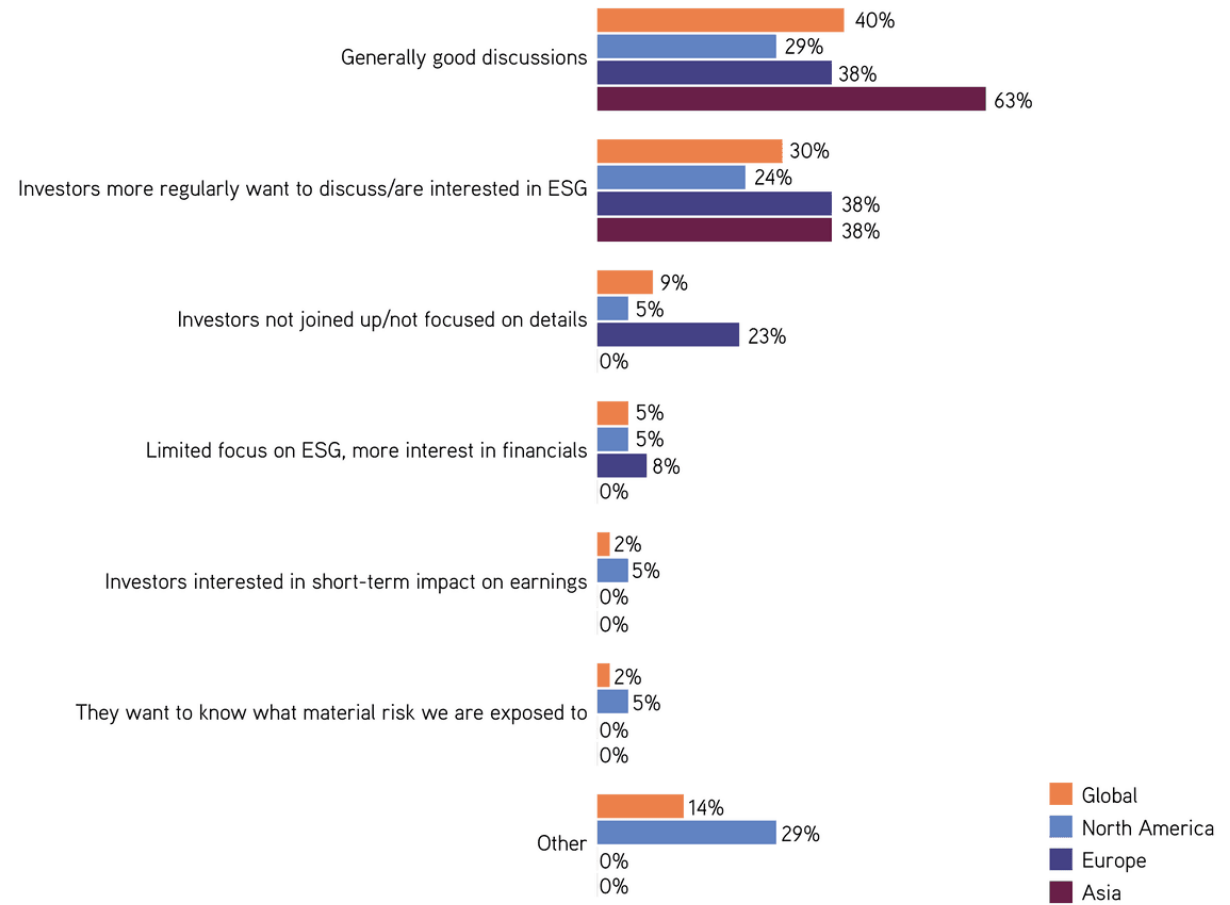
IR professionals in Asia also held the most social conversations with investors in the past 12 months: at an average of 24, this is almost three times the number held by IR professionals in North America and more than twice the global average of 10.

Social conversations directly with investors



Investors' thinking on E&S issues isn't always joined up, however. Almost a quarter of IR professionals in Europe say investors' E&S discussions don't focus on the details. This is higher than the almost one in 10 global IR professionals who say the same, and considerably higher than IR professionals in Asia, none of whom get this impression from these conversations.

What impressions have these conversations left you with?



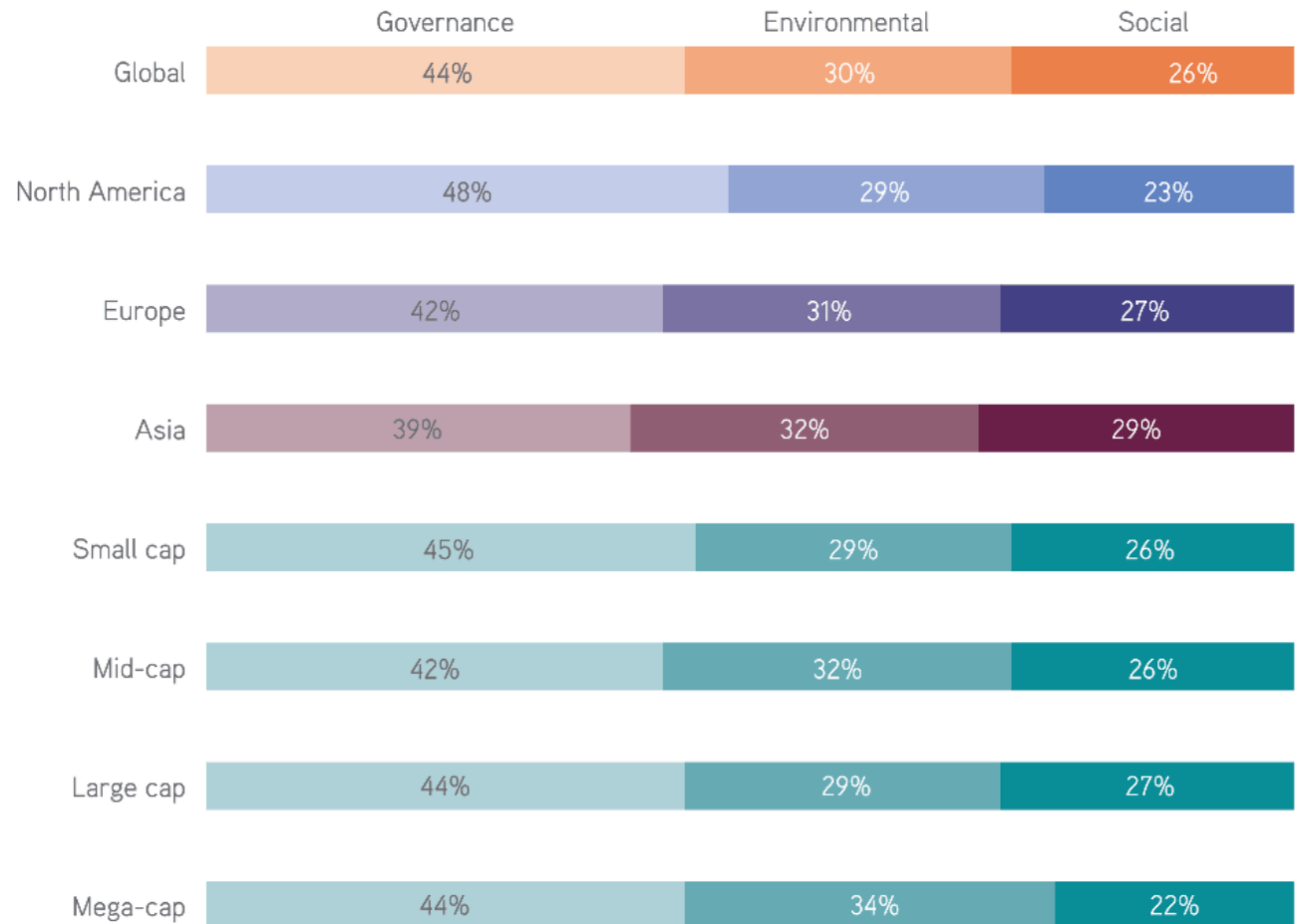
Focus of ESG reporting

When asked about the main focus of their company reporting, 44 percent of global IR professionals say it is governance. There is little regional difference, ranging from 39 percent of IR respondents in Asia ranking it most important to 48 percent of IR respondents in North America doing the same.

Where environmental reporting is the main focus, there is little difference between the IR respondents: 30 percent globally rate environmental reporting as their main focus, varying from 29 percent in North America to 32 percent in Asia, and from 29 percent at small caps to 34 percent at mega-caps. Just over a quarter globally rate social reporting as most important.

ESG reporting split

What is the main focus of your company reporting?





Regional breakdown

How do different geographic regions view E&S data providers?



Investors and IR professionals – Europe

IR professionals in Europe complete more E&S questionnaires than respondents in any other region, averaging 4.6 in the past year. The number of conversations they hold on environmental matters with investors (20) is above the global norm of 14, and on social matters (13) is above the global average of 10.

Respondents in Europe are also more likely than the global norm to say investors are asking for more regular discussions and showing more interest in ESG, though they also feel most strongly that investors are not focused on the details.

Environmental reporting

For IR professionals in Europe, environmental reporting focuses most on carbon reporting/emissions and greenhouse gas references: each is

reported on by 18 percent of IR respondents in the region. The coverage of greenhouse gas issues in company reporting closely mirrors the number of buy-side respondents in Europe (16 percent) looking for it.

But buy-siders in Europe are far more focused on carbon emissions, with just under half (44 percent) specifically looking for coverage of this topic in company reporting. The next-most important issue is water use, looked for by one in five buy-side respondents in Europe, but reported on by only 8 percent of IR respondents in the region.

Social reporting

Health & safety is the social issue most reported on by IR professionals in Europe, with 24 percent of respondents citing it as a focus, followed by CSR and

employee diversity, cited by 16 percent and 13 percent, respectively. This diverges widely from what buy-siders in Europe are actually looking for, however: their main focus is employment issues and labor practices, at 26 percent of responses; these are reported on by just over one in 10 IR respondents in Europe.

The next-most important issues for buy-siders in Europe are management & board diversity, employee diversity and employee turnover, each of which is cited by 21 percent of respondents. A fifth of buy-siders look for coverage of health & safety issues in social reporting in Europe.

E&S data providers

Sustainalytics ESG Ratings and Research tops the list of most accurate E&S data providers for IR professionals

in Europe, with 40 percent of respondents ranking it first. It is also most favored by buy-siders in Europe, more than six in 10 of which use it.

Second-ranked in Europe is MSCI ESG Ratings, used by 41 percent of buy-siders and seen as the most accurate E&S data provider by almost a third (32 percent) of IR respondents in Europe.

Investors and IR professionals – North America

IR professionals in North America have the fewest E&S conversations with investors, and are least likely to find investors wanting more regular discussions on ESG issues. They also complete the fewest E&S questionnaires of any region – an average of 4.1, just marginally above the global norm.

IR professionals in North America focus on governance reporting more than any other region, especially at small-cap firms, where governance is the main focus of ESG reporting for 45 percent of IR respondents.

Environmental reporting

Both IR professionals and buy-siders in North America focus most on greenhouse gas references in company reporting, with almost two thirds of IR respondents and just under three in 10

buy-siders citing it. Buy-side respondents place equal importance on general references to environmental impact, however, while just one in 10 IR respondents focus on this issue.

Strikingly, the second-most important area of reporting focus for investor relations professionals in North America is energy consumption, cited by one in five respondents – but not considered important by any buy-siders in the region.

Social reporting and issues

Just under a third (30 percent) of IR professionals in North America report on employee diversity, though this is considered important by less than a quarter (23 percent) of buy-siders in the region. For the buy-side community, the most important topic is management and board diversity,

cited by 31 percent of respondents, followed by employee diversity and corporate governance (23 percent each). Just 2 percent of IR respondents in North America cover governance in their social reporting.

E&S data providers

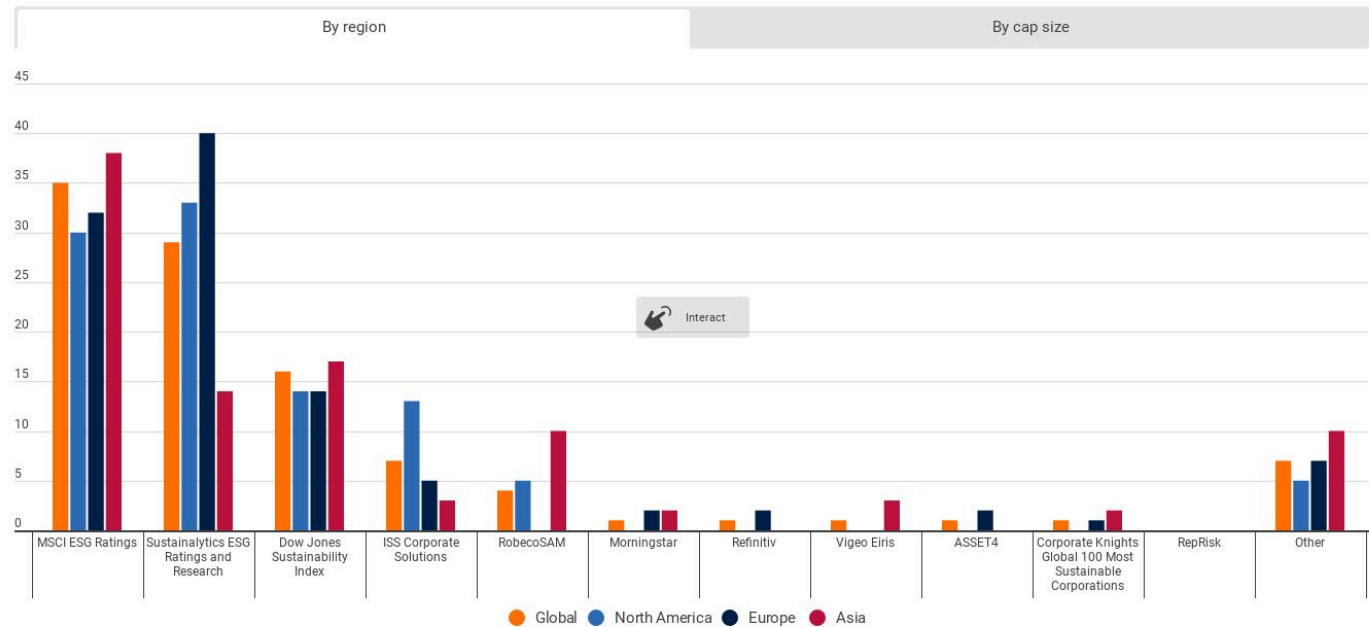
As in Europe, Sustainalytics ESG Ratings and Research (33 percent) and MSCI ESG Ratings (30 percent) top IR respondents' list of the most accurate E&S data providers, and buy-siders in the region agree: 47 percent of them use Sustainalytics ESG Ratings and Research and a whopping 56 percent favor MSCI ESG Ratings.

Investors and IR professionals – Asia

IR professionals in Asia have more E&S conversations with investors than respondents from any other region, averaging 35 a year for environmental discussions and 24 for social conversations. Almost two thirds (63 percent) of these respondents feel these conversations are generally worthwhile. Respondents in Asia complete an average of 4.5 E&S questionnaires a year.

Environmental reporting

For IR professionals in Asia, the most common topic in environmental reporting is greenhouse gas references, cited by 28 percent of respondents, followed by carbon reporting/emissions (24 percent) and environmental impact and energy consumption (20 percent each).



IR professionals: Who produces the most accurate E&S data?

This chart has been rebased to exclude 'N/A' and 'none of the above' responses

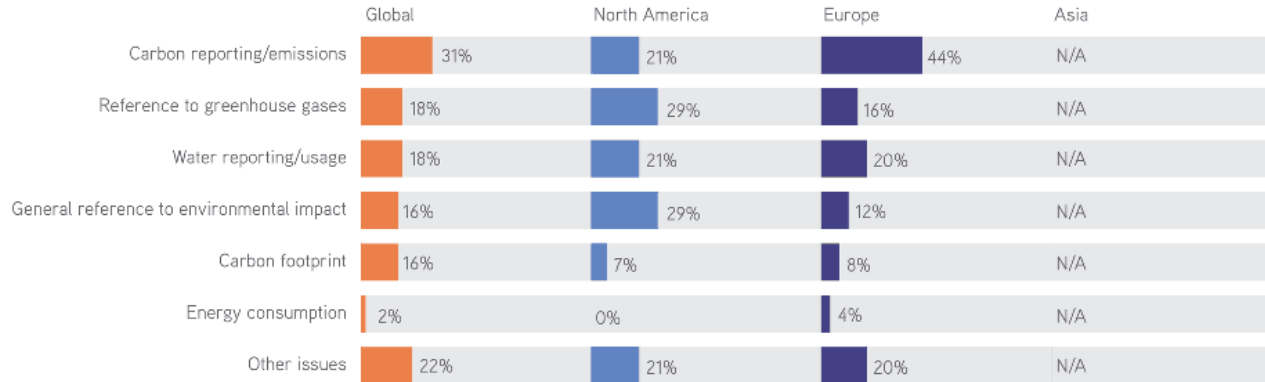
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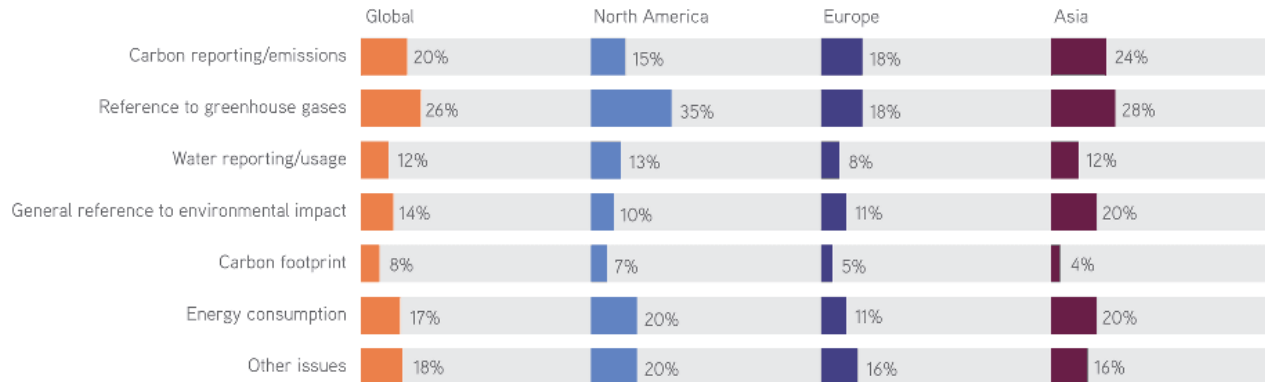
Investors

What concepts/issues/KPIs do you look for in environmental ratings?



IR professionals

Which environmental criteria/issues has your company chosen to report on?



The responses from buy-side respondents in Asia were too low to be statistically relevant for this question.

Social reporting

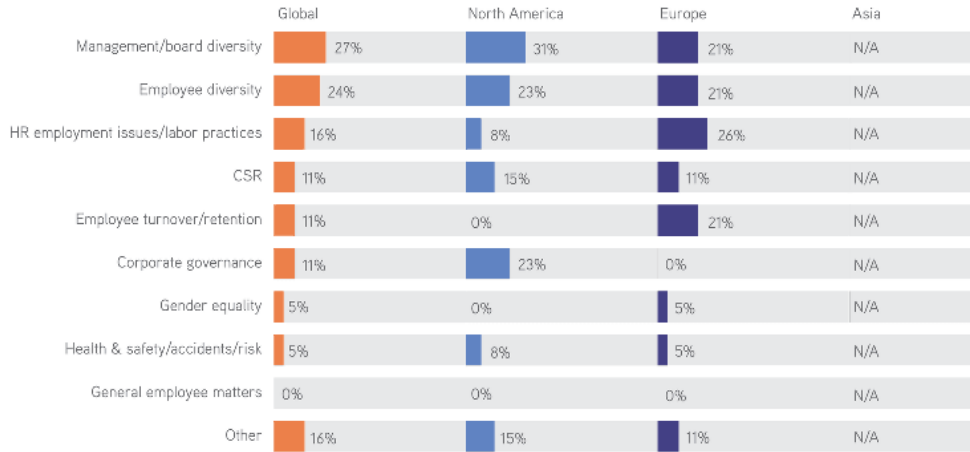
When it comes to reporting on social issues, CSR and health & safety are the biggest areas of focus for IR professionals in Asia, with each cited by one in five respondents. Unlike their counterparts in North America, IROs in Asia are not greatly concerned with employee diversity, which is mentioned by just 4 percent of respondents.

The other main topics in social reporting in Asia are employment issues & labor practices, cited by 16 percent of IR respondents, and general employee matters (also 16 percent).

The responses from buy-side respondents in Asia were too low to be statistically relevant for this question.

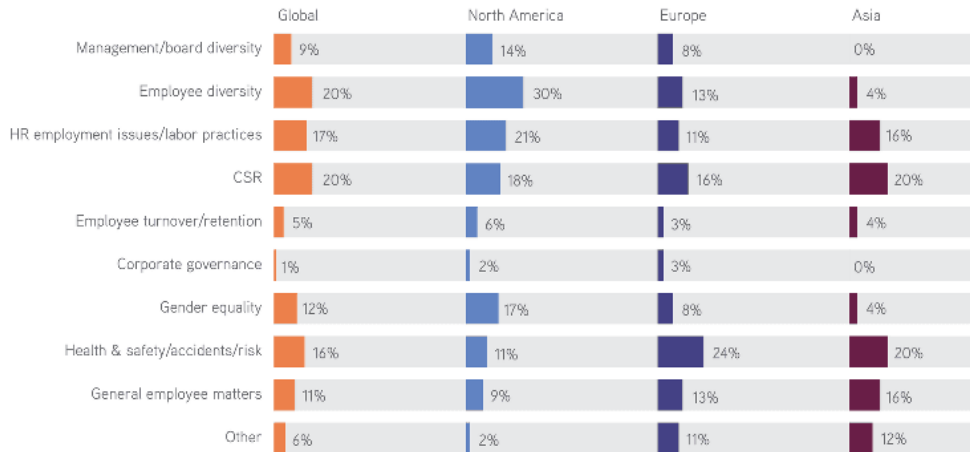
Investors

What concepts/issues/KPIs do you look for in social ratings?



IROs

Which social criteria/issues has your company chosen to report on?



E&S data providers

IR respondents in Asia rate MSCI ESG Ratings (38 percent) and Dow Jones Sustainability Index (17 percent) as the two most accurate providers of E&S data, but buy-siders in the region have a preference for MSCI ESG Ratings (50 percent) and Sustainalytics ESG Ratings and Research (33 percent).

Sponsor's statement

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Sponsor's statement

Every company faces challenges with investors, proxy advisers and ESG. The impact of the coronavirus adds a new set of challenges that will last long after the worst of the pandemic is over. It is an immensely stressful time for boards and executives. To keep their companies strong and afloat, they must also maintain the confidence of investors that have also been hit hard and are now questioning their previously held assumptions.

Decisions around ESG during this time are a minefield for good and bad decision-making that will impact investor relations, shareholder activism, market sentiment and results at company meetings for years. The C-suite and board

directors will rely heavily on investor relations, corporate secretaries and general counsel to successfully navigate this perilous path.

Glass Lewis is here to help companies navigate successfully and with confidence. We offer open engagements with our analysts on all ESG issues, free data checking and policy change notifications and the inclusion of unedited company opinions with the same reports we send to investors on how to vote at company meetings.

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IR Magazine Research Report - Measuring E&S

