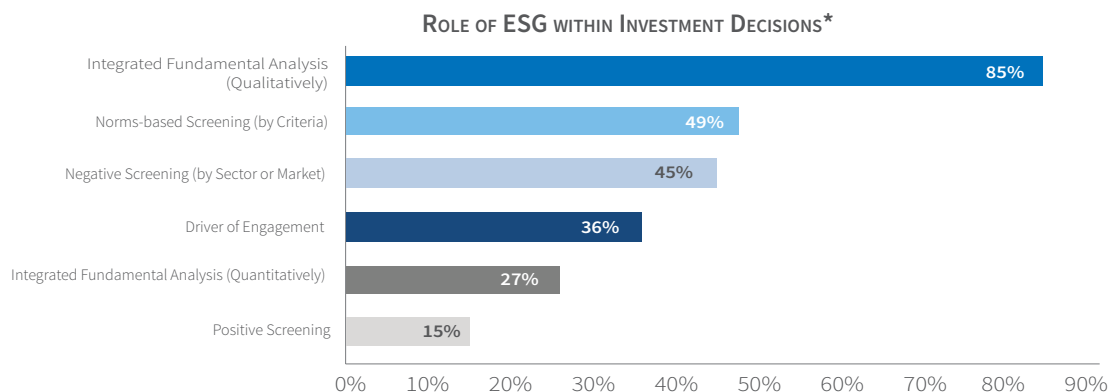


# How ESG Drives Investment Decisions: Perspectives from the Buy Side



In response to the evolving landscape of ESG integration, Ipreo's Perception Analytics team held in-depth interviews with over 70 investment professionals across 15 countries and whose firms manage almost \$2.4T in equity assets. The survey population of portfolio managers and dedicated Sustainability analysts provided feedback on three key questions facing corporate issuers and their IR teams:

## Q: How are ESG factors incorporated into investment decision-making?



\*Participants had the option of providing multiple responses. The top-6 responses are graphed.

- ▶ The application of ESG research varies widely depending on the type of buy-side institution, existence of SRI funds, maturity of Sustainability program, and level of internal collaboration between teams.
- ▶ A majority of participants use ESG research as a qualitative input within investment decisions. Investors look at specific E, S, and G topics depending on the company and sector in order to gauge management quality and risk management (operational and reputational).
- ▶ Most PMs and investment analysts are still in the early stages of working with their Sustainability teams to develop an approach where ESG is applied in a quantitative manner as a material driver of investment decisions.
- ▶ For several firms, negative screening is in effect based on firm-wide, fund-specific, or client-mandated policies. The most commonly-mentioned sector restrictions include munitions, alcohol, and tobacco, whereas norms-based restrictions are typically derived from principles of the UN Global Compact and include issues like human rights violations, nuclear activities, and environmental pollution.
- ▶ These hard-and-fast screening rules are primarily applied to SRI funds, whereas broader ESG integration is not as clear cut for most mainstream funds. As such, engagement is a core component of the buy side's ESG inclusion processes.

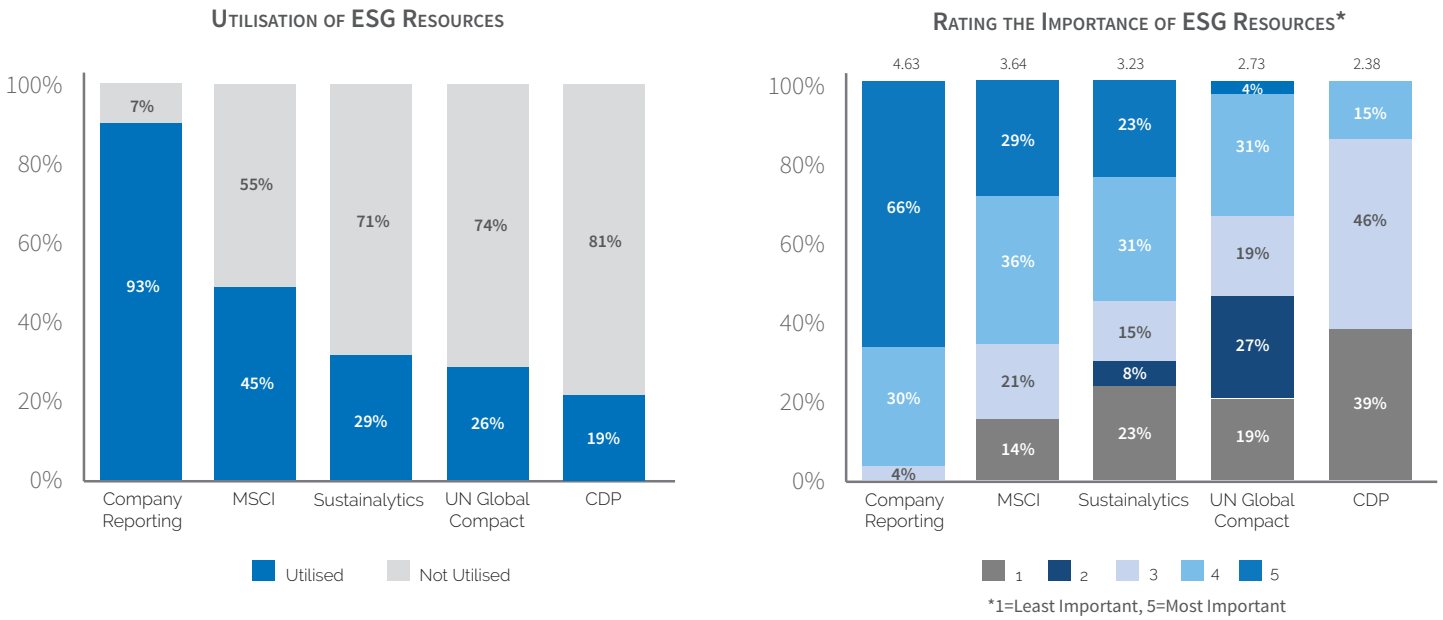
“Our SRI research does have influence, but it is not explicit or direct at this stage. However, that has been what we are working toward.”



“The importance of ESG criteria as a quantitative input to investment decisions needs to be supported by qualitative data. We need both qualitative and quantitative data to understand how the company really thinks about Sustainability.”



## Q: What are the key resources that institutional investors rely on for ESG research?



- ▶ A majority of analysts and portfolio managers conduct independent ESG assessments through materials published within companies' Annual Reports, Sustainability Reports, financial disclosures, investor presentations, and press releases.
- ▶ Third-party ESG research vendors are a secondary resource as most firms use either MSCI or Sustainalytics to flag contentious issues, gather raw data and information for input into models and databases, and gain a comparative view across companies, sectors, and geographies.
- ▶ Rather than a source of ESG information, the UN Global Compact is viewed as a valuable framework for Sustainability principles.
- ▶ The CDP is utilized by some respondents as a source of insight on the regulatory landscape for climate change and an aggregator of GHG data.

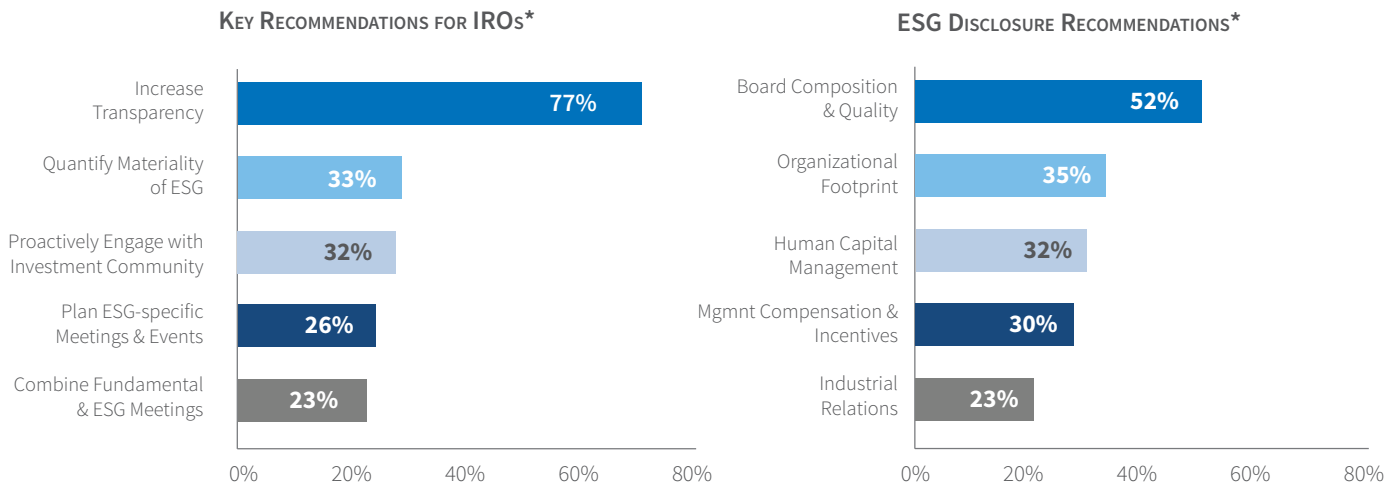
"We look at the Annual Report, Sustainability Report, interim results, and strategy presentations. The more information that we can include, the better our scorecard is. We use external benchmarks for the information that they provide, but we do not pay any attention to their ratings."



### OTHER COMMONLY USED SOURCES OF SUSTAINABILITY INFORMATION\*



## Q: What role should Investor Relations play in Sustainability communications?



\*Participants had the option of providing multiple responses. The top-5 responses are graphed.

- ▶ Analysts and PMs primarily seek greater ESG transparency on the following topics:
  1. Board structure, diversity, skillset, tenure, election and renewal processes, and accessibility
  2. Environmental impact in terms of CO2 emissions, water stewardship, and energy efficiency
  3. Employee engagement and satisfaction, benefits, health and safety, retention, diversity, and training
  4. Management remuneration and incentives structure aligned to shareholder value and long-term performance
  5. Collective bargaining, union relations, and potential industrial actions
- ▶ Participants highlight the importance of connecting ESG factors to business fundamentals in order to illustrate the tangible impact of Sustainability on financial outlook and valuation. IR is expected to play a significant role in bridging the link between ESG, financial performance, and investment attractiveness.
- ▶ The Street highly values proactive engagement, so participants recommend for IROs to offer dedicated ESG meetings and conference calls, integrate ESG topics within fundamental meetings (when appropriate), and plan SRI roadshows.

“The quality of Sustainability reporting should ensure that it is not primarily viewed as a marketing tool, but a tool that represents the positives and negatives of ESG on the risk profile and potential opportunities. Also, incorporating ESG information across all forms of communication would be helpful.”



“Companies should make a small mention of ESG on the earnings release and publish a small report on the critical issues of the sector it operates in, so industry analysts have more exposure to ESG issues. Most companies release interactive results with graphics that can be downloaded to Excel. These releases usually only cover financial information, but companies should start putting information about the company’s water usage, energy usage, emissions, tons of waste, turnover, and other relevant information for the sector to engage investors on ESG topics.”



### FOR MORE INFORMATION ABOUT THESE SERVICES CONTACT

Robin Auten  
 Managing Director, Perception Analytics | Ipreo  
 +1 (212) 849-3740  
[robin.auten@ipreo.com](mailto:robin.auten@ipreo.com)