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Effective ESG Communication Strategies to Address Increasing Investor Collaboration

Leaders Arena

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Investor collaboration: Introduction and impact on companies

As global assets integrating Environmental, Social and Governance (ESG) considerations continue to swell, institutional investors globally are increasingly building coalitions and engaging with their portfolio companies to improve transparency and enact change on a broad range of ESG and sustainability-related issues. “ESG Communications Specialists” (typically working within Investor Relations, Corporate Communications or Sustainability teams) should act now to stay on top of the rapidly changing developments in this area and more effectively control their companies’ ESG-related messaging.

Collaborative investor engagement on ESG issues isn’t a new phenomenon. Investors have been coming together for decades to pool resources and draw on collective experience in order to influence practices and behaviors for issues of concern at their portfolio companies. For example, the Social Investment Forum, a coalition of roughly 400 investors joined forces in the late 1990s to pressure clothing manufacturers and retailers to take a tougher stance against apparel industry labor practices. However, such initiatives were sporadic and were composed primarily of a small number of pioneering investors with a sole focus on ESG or those where the end beneficiary was easy to define.

But in recent years, both the number of collaboration initiatives and engagement topics have grown significantly in tandem with the tremendous growth in ESG investing.¹ Of the 20 most impactful investor coalitions each representing more than US\$1 trillion in collective assets, nearly half (nine) were formed since 2017, and 19 of 20 were launched since 2011. (See the Appendix for a list of the coalitions.) And, not surprisingly given the potential for material investment risks across a broad range of asset classes, seven relate to climate or other environmental issues. The list of engagement topics now spans those with global reach including climate risk, gender diversity, and human rights, to very specific and localized issues such as deforestation in South America and opioid manufacturing and distribution in the U.S.

Coalition size has also ballooned. Several coalitions including Climate Action 100+ (CA100+) and the Workforce Disclosure Initiative (WDI) now counting among their signatories hundreds of investors (including some of the world’s largest) that collectively represent trillions of USD in assets and own substantial equity stakes in global listed companies. Based on Leaders Arena research, CA100+ signatories manage a combined \$5.1 trillion in equity assets, owning on average 12.7% of shares in global listed companies. Another rapidly growing initiative, the WDI has signatories managing a combined \$2.4 trillion in equity assets, and owning on average 5.9% of shares in global listed companies. Companies cannot afford to ignore these new ESG demands.

¹ <https://www.leadersarena.global/esg-market-monitor>.

² <https://www.unpri.org/listed-equity/overview-of-collaborative-engagement-/486.article>

³ UNPRI

The explosion in the number of investor collaborations is linked to growing investor interest in ESG, which is increasingly underpinned by numerous studies showing that good ESG performance can potentially enhance risk-adjusted returns. Shifting client preferences, including those from millennial investors that increasingly want to link their values to their investment decisions, has also helped to drive the interest in ESG. Signing on to a coalition is a visible way for asset managers to proudly display their ESG bona fides and potentially win new client mandates, or at least show that the manager is “doing something” in the ESG area.

Furthermore, many investors increasingly find collaboration platforms an efficient way of engaging with portfolio companies. They help channel issues of concern to corporate management teams, which can improve communication. Many ESG issues are complex, and collaboration allows investors to share resources and build knowledge and skills in these areas. It also gives smaller and resource-constrained investors a way to “punch above their weight” and make their voices heard.²

Finally, collaboration platforms offered by organizations such as Ceres, the Interfaith Center on Corporate Responsibility (ICCR), ShareAction, and the United Nations-backed Principles for Responsible Investment (PRI) have helped facilitate investor engagement and collaboration. For example, there are currently close to 160 ongoing PRI-facilitated engagement opportunities in which investors can choose to participate.³ Adding one’s name to an initiative is now often just a few clicks away.

In addition to formal coalitions, investors are organizing in other ways. These include company-specific engagements, topic-related campaigns such as methane emissions or water management, and investors advancing their own ESG agendas with certain initiatives such as decarbonizing their portfolios. Investors are also lending support to reporting and disclosure improvement initiatives such as the Financial Stability Board’s Task Force on Climate-Related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB).





What proactive steps can ESG Communications Specialists take now to be more effective?

Many companies find it challenging to keep up with the diverse and evolving approaches to ESG integration within their investor base, especially if the company operates in an industry where ESG issues have been identified as more material and relevant, such as oil & gas, manufacturing, financials, utilities and materials. Furthermore, it is easy to become distracted by the latest reporting trends, “flavor of the month” issues, questionnaires, surveys, and by the loudest investors in the room.

However, there are 10 proactive steps these teams can take to be prepared to respond to incoming ESG-related requests and reach out to investors in order to control their ESG messaging:



1. Maintain a company-specific radar to track relevant investor initiatives including your investor signatories, ongoing research and regulation overall and in your company’s sector.



2. Monitor investor signatories to your company’s shareholder base and track how ESG initiatives are impacting their presence in your company and sector.



3. Prioritize efforts. Examine issues being raised by the investor coalition in context of how material and relevant they are to the company’s core business. While materiality is in the eye of the beholder, focus first on the issues with the most direct links to the company’s key business and financial performance metrics (revenues, cash flow, operating margins, etc.). Then, continue monitoring the pace of the growth in the others.



4. Consider an initial engagement with investors that have made contact.



5. Analyze how far off you are from fulfilling the investor’s request(s) and the time and internal resources that would be needed.



6. Build your knowledge base. Identify the surveys, reporting initiatives and data that is driving ESG decision-making by key investors.



7. Benchmark practices and disclosures against industry peers and leading practices more generally.



8. With the core investor audience in mind, consider whether any reporting and disclosure enhancements are required and in which formats, such as a smaller, more focused report versus the company’s CSR report.



9. Create a robust ESG engagement plan that is proactive rather than reactive and ensures the company gets credit for all of the good things it is doing on ESG.



10. Determine how incoming requests for ESG-related information will be handled before investors come calling. Teams and individuals that should be involved in initial engagements include investor relations, corporate communications, CSR team, the corporate secretary, legal counsel and treasury. Senior executives, and even board members, can be helpful for conversations later on.

The above steps require considerable time and internal resources. If you feel that internal resources in your company could be insufficient, contact us for a free consultation. We would be happy to explore your specific needs and how we can help.

ESG is a marathon, not a sprint. But by taking these steps, ESG communications specialists can stay on top of the rapidly-shifting developments in ESG and give your company a competitive advantage in investor communications.



APPENDIX: 20 Investor Coalitions Engaging with Companies on ESG

The below table shows 20 investor coalitions focused primarily on ongoing ESG engagement with companies and whose investors represent more than \$1 trillion in collective assets. Coalitions are grouped by topic and listed in descending order by largest investor asset totals as disclosed by the coalition organizers.

Coalition	# Investors / Assets	Key Investors	Goals	Year Formed
Climate Risk				
Climate Action 100+, led by PRI and Ceres	279 / \$31tn	AllianceBernstein, CalPERS (a founding member), ClearBridge, Man Group, Varma Mutual Pension Insurance Company	5-yr initiative to engage with 161 target companies on carbon emissions, board oversight of climate risk, and FSB TCFD disclosure.	2017
Global Investor Coalition on Climate Change (GIC)	319 / \$28tn	AustralianSuper, Amundi, BlackRock, CalPERS, State Street Global Advisors (SSGA)	Joint initiative of four regional groups that represent investors on climate change and the transition to a low carbon economy.	2014
Institutional Investors Group on Climate Change (IIGCC)	160 / \$25.5tn	Allianz, APG, BlackRock, Legal & General, USS	Encourage public policies, investment practices, and corporate behavior that address long-term risks and opportunities associated with climate change.	2012
Investor Network on Climate Risk and Sustainability (INCR), led by Ceres	161 / \$25.2tn	BlackRock, BNP Paribas, SSGA, TIAA-CREF	Advance leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet.	2003
One Planet Sovereign Wealth Fund Working Group	6 / \$3tn	6 SWFs including the Kuwait Investment Authority, Norges Bank Investment Management of Norway, and the Public Investment Fund of the Kingdom of Saudi Arabia.	Create a framework (published in July 2018) to promote the integration of climate change analysis in the management of large, long-term and diversified asset pools.	2017
Investor Decarbonization Initiative, led by ShareAction	70 / \$1tn	Boston Common, Hermes, Trillium	Encourage companies to set science-based climate targets, in addition to committing to 100% renewable electricity, doubling of energy productivity, and furthering electric mobility.	2018
Corporate Governance – General				
Investor Stewardship Group (ISG)	50 / \$22tn	BlackRock, SSGA, T. Rowe Price, ValueAct, Vanguard	Create a framework for U.S. Stewardship and Governance (went into effect Jan. 2018).	2017
Boardroom Accountability Project	N/A	New York City pension funds working in collaboration with other institutional investors	Give investors a greater voice on board of director composition via proxy access as well as advocating for greater diversity, independence, and climate expertise on corporate boards.	2014

Coalition	# Investors / Assets	Key Investors	Goals	Year Formed
Environment – General				
Investor Initiative for Sustainable Forests	32 / \$6.3tn	N/A	Engage companies in a range of sectors to eliminate deforestation and also address other ESG issues related to soft commodity production.	2017
Gender Diversity				
The Thirty Percent Coalition	\$3.2tn	CalSTRS, Calvert, OPERS, Walden	Increase gender diversity in corporate boardrooms.	2011
Human Capital Management				
Workforce Disclosure Initiative (WDI)	100+ / \$12tn	Aviva Investors, Hermes, Legal & General, Nordea, PGGM	Improve transparency from companies on how they manage workers, with the ultimate goal of improving the quality of jobs in companies' operations and supply chains.	2017
Human Capital Management Coalition	25 / \$2.8tn	UAW Retiree Medical Benefits Trust, CalPERS, CalSTRS, various state treasurers	Engage companies with the aim of understanding and improving how human capital management contributes to the creation of long-term shareholder value.	2017
Human / Labor Rights				
Corporate Human Rights Benchmark (CHRB)	85 / \$5.3tn	APG, Aviva Investors, Nordea	Create an open and public benchmark of corporate human rights performance.	2013
Know the Chain	\$3.4tn	Boston Common, Domini, HSBC Asset Management, Trillium, USS	Create benchmarks that are a resource for companies and investors to understand and address forced labor risks within their global supply chains.	2016
Investor Alliance for Human Rights (IAHR)	100+ / \$2tn	Aviva Investors, CtW Investment Group, NY State Common Retirement Fund, Walden Asset Management	Empower collective investor action on business and human rights.	2017
Investor Collaborative for the Living Wage	N/A	UK pension funds (investors and assets not disclosed)	Mobilize pension savers to get their pension to engage with the largest UK companies to adopt the UK Living Wage standard.	2011
Political Lobbying				
Corporate Lobbying Disclosure Coalition (No Formal Name)	74 / assets not disclosed	AFSCME Employees Pension Plan and Walden Asset Management	Improve transparency around corporate lobbying by filing shareholder proposals asking for lobbying reports.	2012
Public Health & Safety				
The Access to Nutrition Index (ANTI)	50+ / \$5tn	AXA Investments, BNP Paribas Investment Partners, Hermes, Standard Life Investments	Publish index that rates food and beverage manufacturers' nutrition-related policies, practices and disclosures worldwide on a recurring basis.	2013
Chemical Footprint Project	30 / \$2.3tn	Aviva Investors, BNP Paribas Investment Partners, Boston Common, Trillium	Measure corporate progress to safer chemicals by providing a metric for benchmarking companies as they select safer alternatives and reduce their use of chemicals of high concern.	2015
Investors for Opioid Accountability	30 / \$1.3tn	AEGON Asset Management, CtW Investment Group, NYC pension funds, various state treasurers, Walden	Improve board oversight of business risks related to opioid misuse at 10 opioid distributor and manufacturer companies.	2017

Source: Leaders Arena; data as of September 2018



About the authors



Based in the US, **Chris Plath**, Senior ESG Analyst, is an industry expert on how investors assess companies on material ESG issues and is a thought leader on corporate governance, engagement and proxy voting. In his previous role as Vice President and Corporate Governance Specialist at Moody's Investors Service (MIS), Chris was responsible for leading MIS's corporate governance analysis and corporate engagement. Chris's previous experience includes designing corporate governance education programs for senior executives and corporate directors and leading non-US proxy voting research at IRRC, now part of ISS.



Based in the US, **Heather Keough**, Senior ESG Consultant, brings an investor lens as an expert on ESG integration following her previous senior role at Goldman Sachs Asset Management (GSAM) where she coordinated portfolio management teams to integrate ESG. She also led hundreds of corporate engagements and managed division-wide proxy voting. Heather enjoys bringing her expertise to help companies identify areas for improvement and support their ESG communication efforts with investors.



Based in the UK, **Miguel Santistev**, Founder & Managing Director, has a unique expertise in Investor Relations (IR) and ESG communication based on his experience in both the Financial Services and the IR Advisory space. Miguel is an industry expert on how Sustainable and Responsible Investors (SRI) are integrating Environmental, Social and Governance (ESG) indicators into their investment decisions as well as in their engagement with listed companies. Miguel has advised hundreds of Investor Relations, Corporate Responsibility and Corporate Communication clients since 2008.



What makes us unique



1. Our unique expertise

Leaders Arena is an independent advisory firm. We form a team of highly specialised consultants offering a unique skillset that brings together Environmental, Social and Governance (ESG), Investor Relations and Corporate Social Responsibility (CSR) world-class expertise.

Our team of expert consultants also has a global reach with operations and experience in Europe and North America. This global reach is critical to helping our clients navigate through varying investor best practices across regions.



2. Our unique approach to serving our clients

Leaders Arena guarantees unparalleled client focus in the corporate advisory space and maximum adaptability to our clients' needs. Our programs are highly customizable and focus on your current needs as they evolve.

Because we truly care about your success, we don't take any shortcuts when it comes to understanding and serving you. For us, every client is different. This alone, make us unique. We strive to become a trusted member of your team.

We have helped hundreds of listed companies, supporting professionals like you. Leaders Arena doesn't offer 'one-size-fits-all solutions'. We never compromise in our relentless pursuit of service excellence.





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