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ESG & Investor Engagement

An analysis of how companies communicate with the investment community on ESG issues

Introduction

Who did we survey?

Introduction

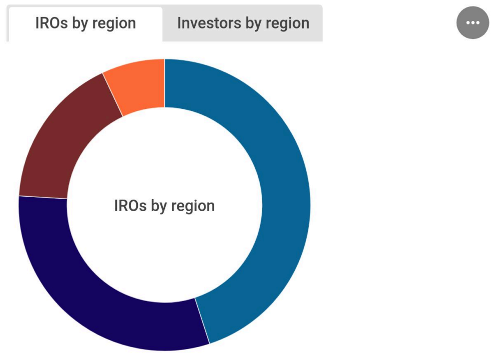
The continued rise in the importance of ESG-related matters to both corporate identity and investment decision-making means greater attention has to be paid to how companies engage with the investment community on ESG issues.

This report examines how companies interact with investors on ESG matters, which issues are most commonly discussed and how frequently these discussions take place. We also assess the relevance of ESG ratings, the perceived benefits of ESG disclosure and the overall importance of ESG to investment decisions.

The first section of this report analyses the results of a survey of investor relations (IR) practitioners conducted in Q1 2019 by Corporate Secretary sister publication IR Magazine, while the second section's findings are taken from an IR Magazine Q4 2018 study of investors. The third section is a Q&A on ESG and investment stewardship.

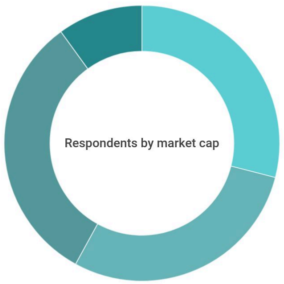
The final section of this report examines the views and practices of corporate governance professionals. Taken from a survey conducted by Corporate Secretary in Q2 2019, the findings here can differ from the experiences of IR practitioners and offer an alternative perspective of investor engagement on ESG issues.

Survey results in this report are broken down by region, job title and company market cap. The geographical regions we use are North America, Europe and Asia, while the investment community is divided into sell-side analysts, buy-side analysts and fund managers. The cap size definitions used for this report are as follows:

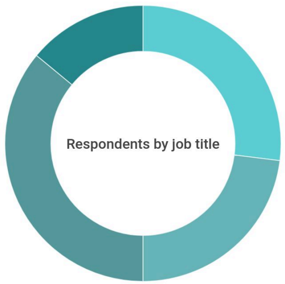


Small cap =	<$1 billion
Mid-cap =	$1 billion-$5 billion
Large cap =	$5 billion-$30 billion
Mega-cap =	>$30 billion

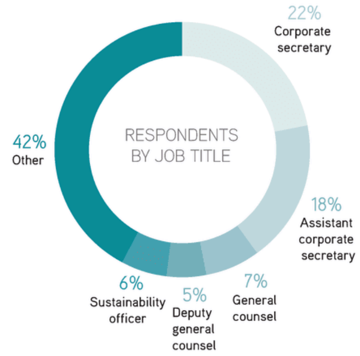
IROs
198 respondents



Investors
166 respondents



North American governance professionals
109 respondents

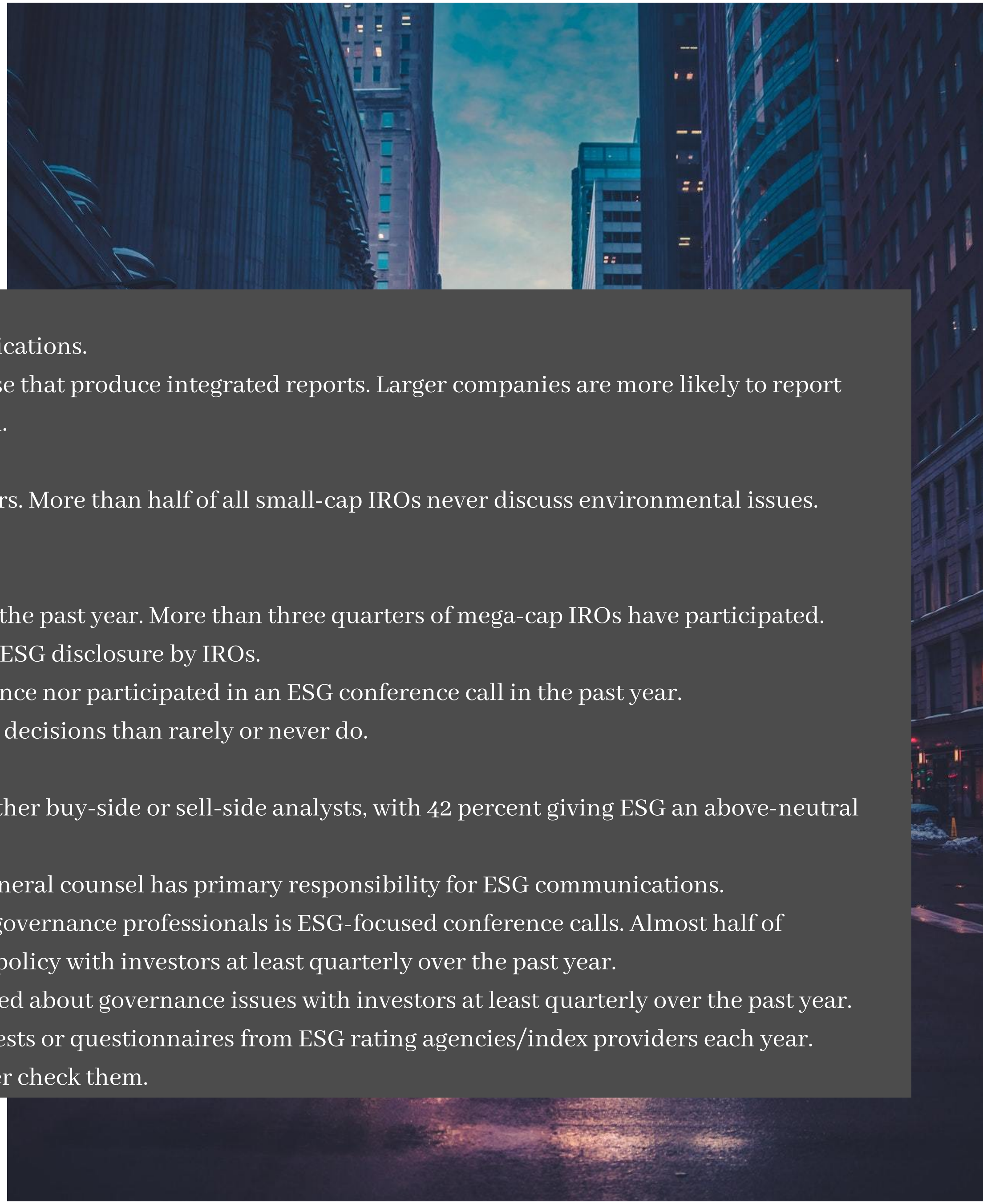


Key findings

What are the key takeaways?

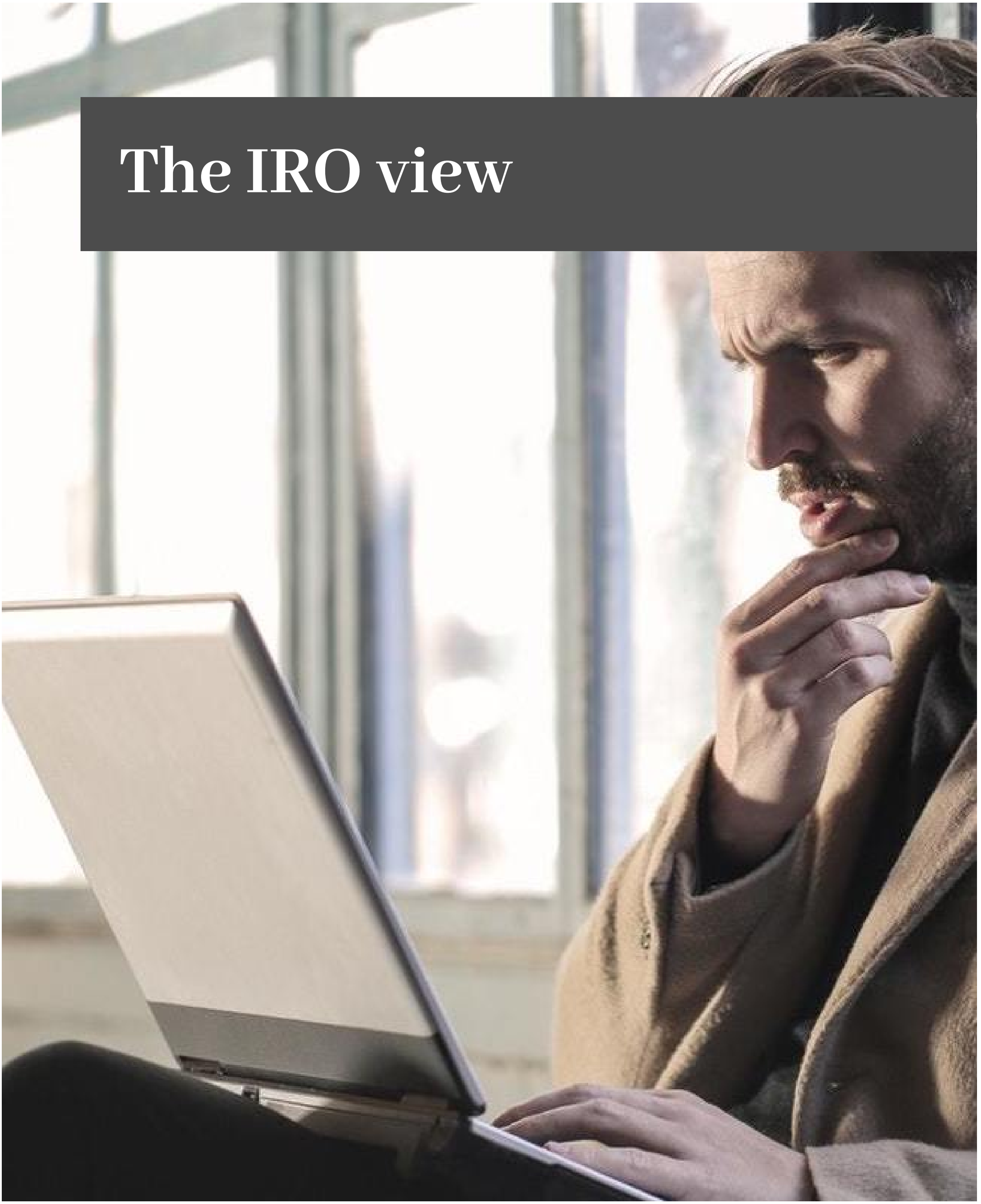
Key findings

- Most larger companies have a sustainability team responsible for ESG communications.
- There is a broad mix between companies that report on ESG separately and those that produce integrated reports. Larger companies are more likely to report separately while a third of North American companies don't report on ESG at all.
- Conference calls are the most common ESG-related investor event.
- Governance is the most common ESG-related issue to be discussed with investors. More than half of all small-cap IROs never discuss environmental issues.
- Governance accounts for 44 percent of ESG reporting.
- Just over a third of IR professionals monitor their ESG ratings at least quarterly.
- Nearly half of IROs have participated in a survey from an ESG ratings agency in the past year. More than three quarters of mega-cap IROs have participated.
- Better relationships with shareholders is clearly considered the main benefit of ESG disclosure by IROs.
- More than two thirds of investors have neither attended an ESG-related conference nor participated in an ESG conference call in the past year.
- More fund managers frequently take account of ESG ratings in their investment decisions than rarely or never do.
- Most investors prefer to see ESG as part of an integrated report.
- Fund managers view ESG as more important in investment decisions than do either buy-side or sell-side analysts, with 42 percent giving ESG an above-neutral importance rating.
- Thirty-six percent of governance professionals say the corporate secretary or general counsel has primary responsibility for ESG communications.
- At larger issuers, the most common type of direct interaction on ESG issues for governance professionals is ESG-focused conference calls. Almost half of governance respondents at larger companies have talked about environmental policy with investors at least quarterly over the past year.
- Sixty-seven percent of governance professionals at smaller companies have talked about governance issues with investors at least quarterly over the past year.
- Governance professionals are responding to more than seven information requests or questionnaires from ESG rating agencies/index providers each year.
- Companies pay attention to ESG ratings: only 4 percent of large companies never check them.



The IRO view

Who is responsible for ESG reporting?



Responsibility, reporting and engagement

ESG communications responsibility

Primary responsibility for ESG communications rests with a dedicated sustainability team at more than a third of companies polled, while responsibility lies with corporate communications at a further 28 percent. Regionally, the practice of the sustainability team having primary responsibility for ESG communications is most prevalent in Asia, with 41 percent doing so. In Europe it is more common for corporate communications to take the lead, with 39 percent of firms assigning primary responsibility to this department.

ESG communications responsibility changes according to company size: just 16 percent of small-cap companies have a dedicated sustainability team responsible for ESG communications. This rises steeply as company size increases to the point where almost three quarters of mega-cap companies give responsibility to the sustainability team. At the same time, corporate communications responsibility for ESG communications drops from 42 percent among small-cap companies to 16 percent at mega-caps.

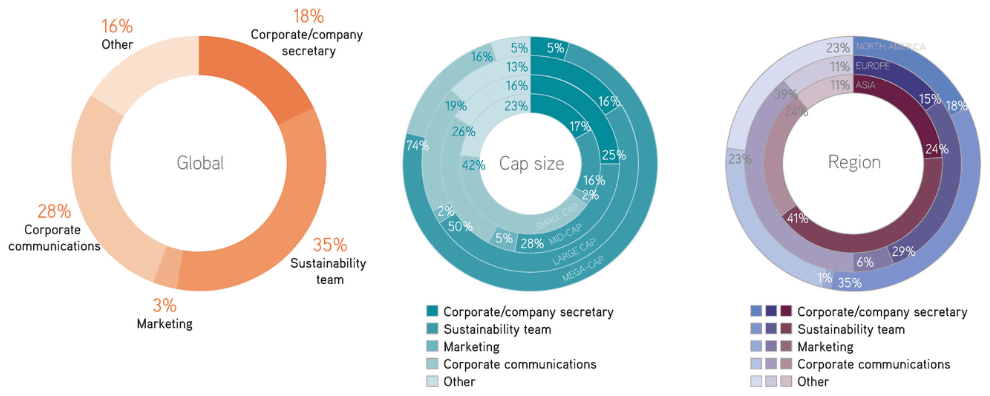
ESG reporting

Having a separate sustainability report is the most common means of ESG reporting. Overall, 38 percent of companies report in this way, compared with 34 percent that integrate their ESG reporting into their annual report. More than a fifth (22 percent) of companies do not formally report on ESG issues.

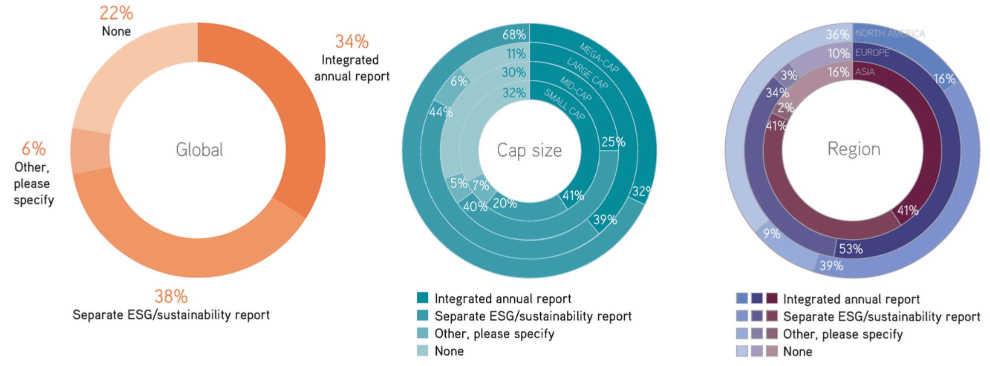
ESG reporting is least common in North America, where 36 percent have no formal reporting structure, while in Europe nine in 10 companies report on ESG issues. Europe also sees more firms report in an integrated manner, rather than having a separate ESG report.

Producing a stand-alone ESG report becomes more common the larger the company. One in five small-cap companies have a separate ESG report, rising to 68 percent of mega-caps. Similarly, larger companies are more likely to report on ESG in general: more than three in 10 small or mid-cap companies fail to report on ESG at all, while 89 percent of large-cap companies and all mega-cap firms surveyed have a formal reporting process for ESG.

Who has primary responsibility for your company's ESG communications?



What kind of ESG reporting do you conduct?

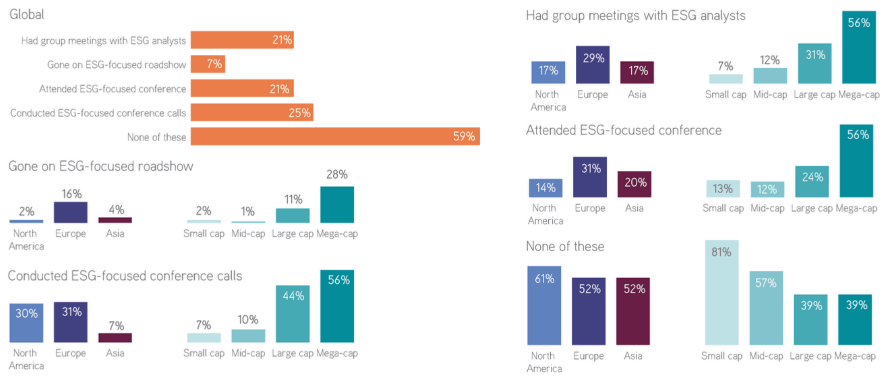


Investor ESG engagement

One quarter of IR professionals have conducted an ESG-focused conference call over the past year. This is the most common form of investor engagement on ESG issues, followed by meetings with ESG analysts and attendance at ESG conferences. Just 7 percent of IROs have gone on an ESG-focused roadshow and nearly six in 10 have not undertaken any of these ESG-related investor events in the past year. All of these activities are most common among European IROs. North American IROs prefer ESG-focused conference calls over investor events, while the opposite is true in Asia.

ESG-focused investor engagement is more common at larger companies. Between mid-cap and large cap there is a 34 percentage-point jump in the number of IROs holding ESG conference calls. More than eight in 10 small-cap and 57 percent of mid-cap IROs have not engaged in any of these ESG-related activities. This falls to a minority of 39 percent of large and mega-cap IR professionals.

Have you done any of the following over the last 12 months?

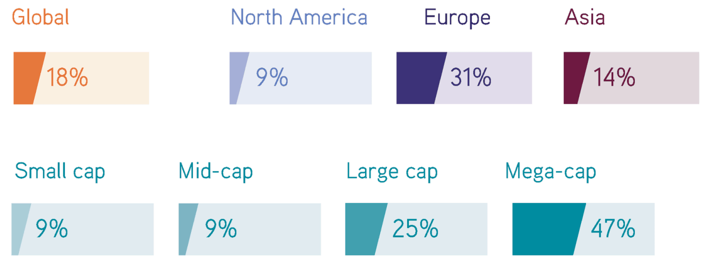


Socially responsible investor (SRI) targeting

Globally, targeting SRI investors is a niche activity, with just 18 percent of companies actively targeting such investors. But there are considerable regional differences: while fewer than one in 10 North American companies target SRI investors, more than three in 10 European companies do so.

SRI investor targeting is an activity commonly seen at larger companies but barely significant for smaller companies: just 9 percent of small and mid-cap companies engage in SRI targeting, rising to 25 percent of large caps and almost half of mega-cap firms.

Do you target SRI investors?



Separating out the E, S and G

Discussions with investors

Governance is the issue most frequently discussed with investors. A majority of IROs have at least quarterly discussions with investors about governance, compared with 30 percent who have environmental discussions and 27 percent who have discussions about social impact over the same time period.

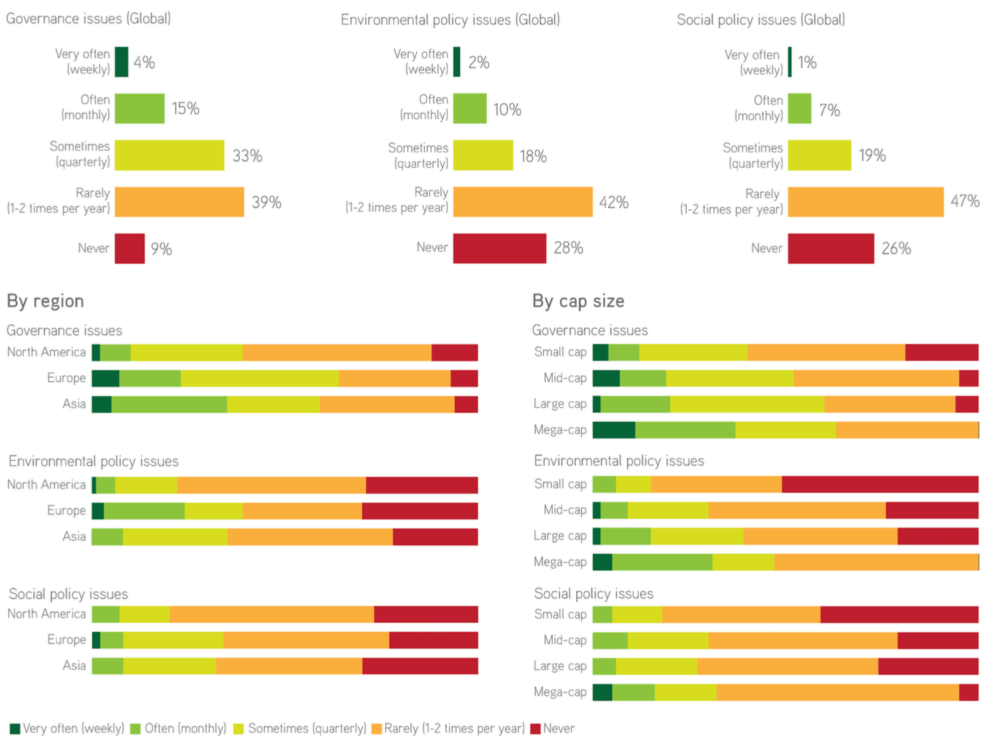
European IROs are most likely to hold regular discussions on all ESG matters, although it is notable that more than a third of Asian IROs discuss governance with investors at least monthly. Nearly two thirds of European IROs discuss governance with investors at least quarterly, while 80 percent of North American IROs rarely or never hold discussions on social policy issues.

Generally, the frequency of discussions on all ESG matters increases with cap size, the only exception being that mid-cap IROs discuss social policy issues marginally more frequently than large-cap and mega-cap IROs. More than half of small-cap IROs never discuss environmental issues with investors and 41 percent of them never discuss social policy issues. All mega-cap IROs have had governance and environmental discussions with investors in the past year, while just 5 percent have not discussed social policy issues.

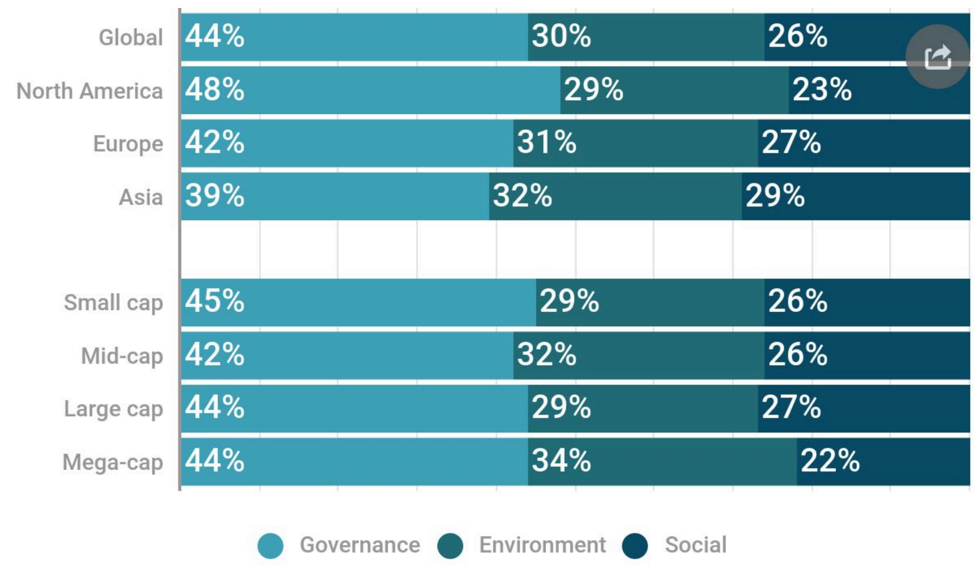
Reporting

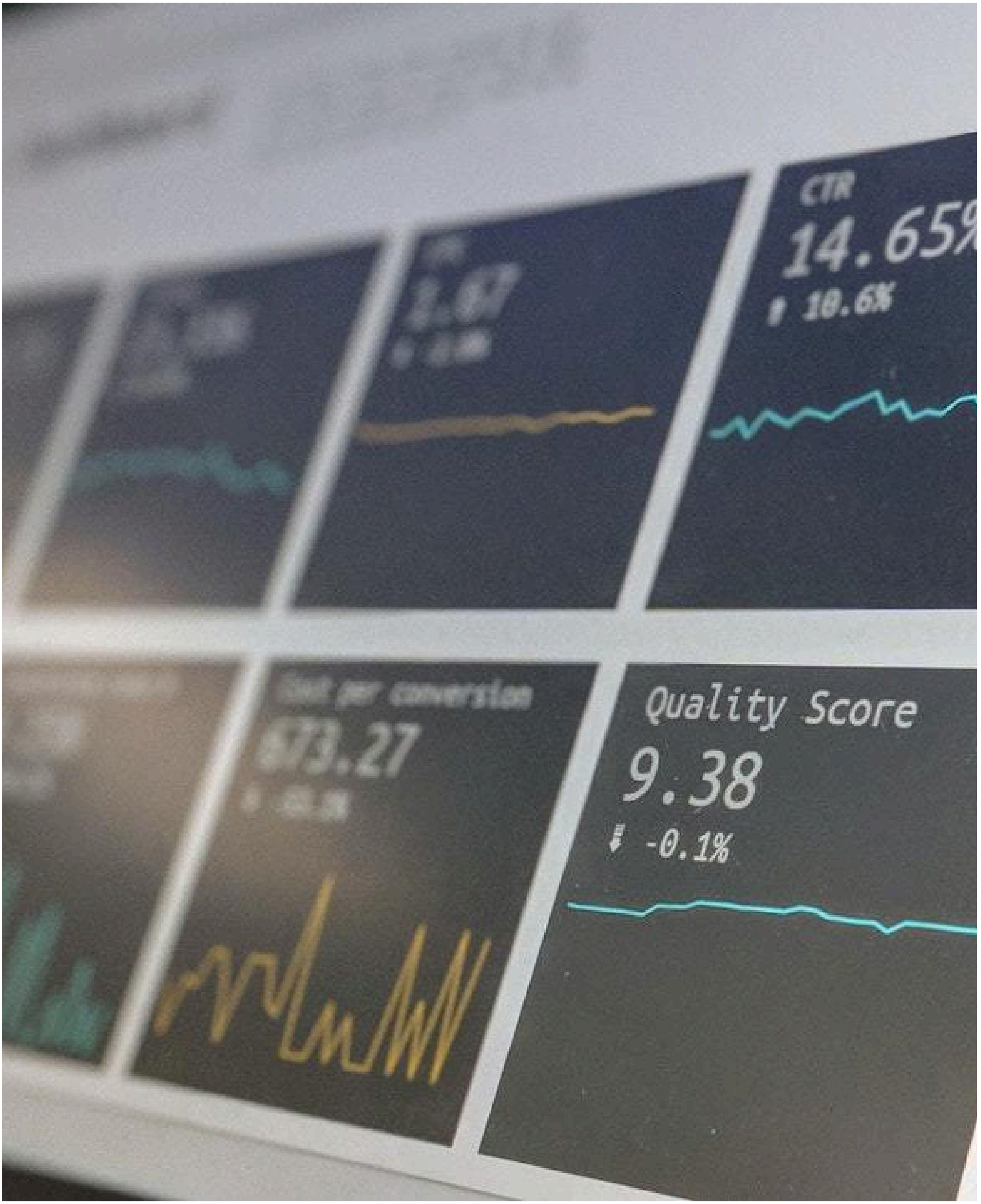
Governance is also the issue most frequently reported on, with 44 percent of ESG reporting focused on this issue. More time is spent reporting on environmental than on social policy issues, although not to a significant degree. Focus on governance is even greater in North America, where just 23 percent of ESG reporting centers on social policy issues. Asia has a higher focus on environmental and social policy issues than the global norm and therefore a lower focus on governance in ESG reporting.

How often have you discussed the following with investors over the past 12 months?



Separating out E, S and G, what ratio of your reporting is on each (approximate percentage)?





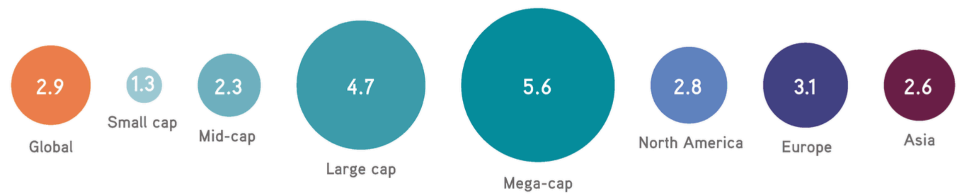
ESG ratings

The average number of annual requests from ESG ratings agencies or index providers that IROs respond to is 2.9. Regionally, the average is slightly higher in Europe and slightly lower in Asia. The average number of requests responded to each year rises from 1.3 among small caps to 5.6 at mega-cap level.

Globally, 47 percent of survey respondents have participated in a survey from an ESG ratings agency, while 39 percent have checked reports from ESG ratings agencies before publication. Just under half (45 percent) of respondent companies have not engaged in either of these activities over the past year.

Regionally, Europeans are more likely to engage with ESG ratings agencies by either participating in a survey or checking reports before publication. Nearly two thirds have undertaken one or both of these activities in the past year.

How many information requests/questionnaires from ESG rating agencies/index providers do you respond to each year?

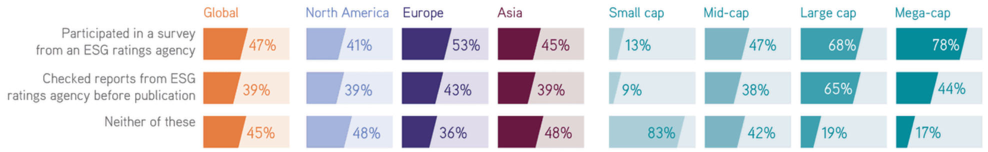


Survey participation rises with company size: just 13 percent of small caps have undertaken an ESG survey in the past year. This number increases through the cap sizes to 78 percent of mega-caps. Large-cap companies are the most likely to check ESG ratings reports before publication: nearly two thirds have done so in the past year, compared with just 9 percent of small caps.

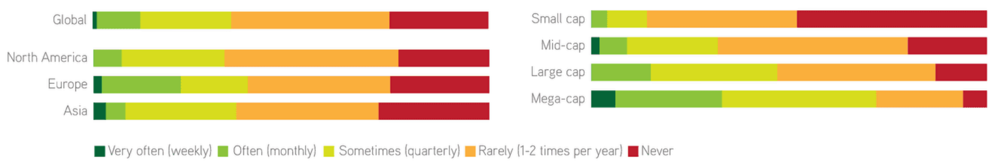
A quarter of IROs never check their companies' ESG ratings, while 40 percent check them only once or twice a year. Just 11 percent feel the need to check their ESG ratings on a monthly basis. Again, it is Europeans who are most engaged with ESG ratings. While 22 percent of European IROs check their ESG ratings at least monthly, just 7 percent of North American and 8 percent of Asian IROs do the same.

Almost half of all small-cap IR professionals never check their company's ESG ratings. This number falls to just 6 percent for mega-cap IROs, more than a third of whom check their ratings on an at-least monthly basis.

Have you done any of the following over the last 12 months?



How regularly do you monitor your ESG ratings?



Benefits of ESG disclosure

IROs clearly believe ESG adds value to their shareholders. When asked to rank six potential benefits of ESG disclosure, 39 percent cite ‘better relationships with shareholders’ as their first choice, while nearly two thirds have it in their top two. ‘Futureproofing the business’ and ‘opening up new pools of capital’ jointly rank next, followed by ‘highlighting potential risks and influencing strategy’.

‘Better relationships with shareholders’ is the highest-ranked benefit in every region and across every cap size. ‘Futureproofing the business’ is notably more highly valued as a benefit in Europe and Asia than in North America, where ‘mitigating risks of a proxy fight’ is the second-most valued benefit of ESG disclosure; it barely features as a consideration in Europe and Asia.

‘Highlighting potential risks and influencing strategy’ appears to be a more important benefit for smaller companies. ‘Mitigating risks of a proxy fight’ is particularly valued by mid-cap companies, while mega-cap companies favor ‘futureproofing the business’ and ‘opening up new pools of capital’ as the main benefits of ESG disclosure after ‘better relationships with shareholders’.

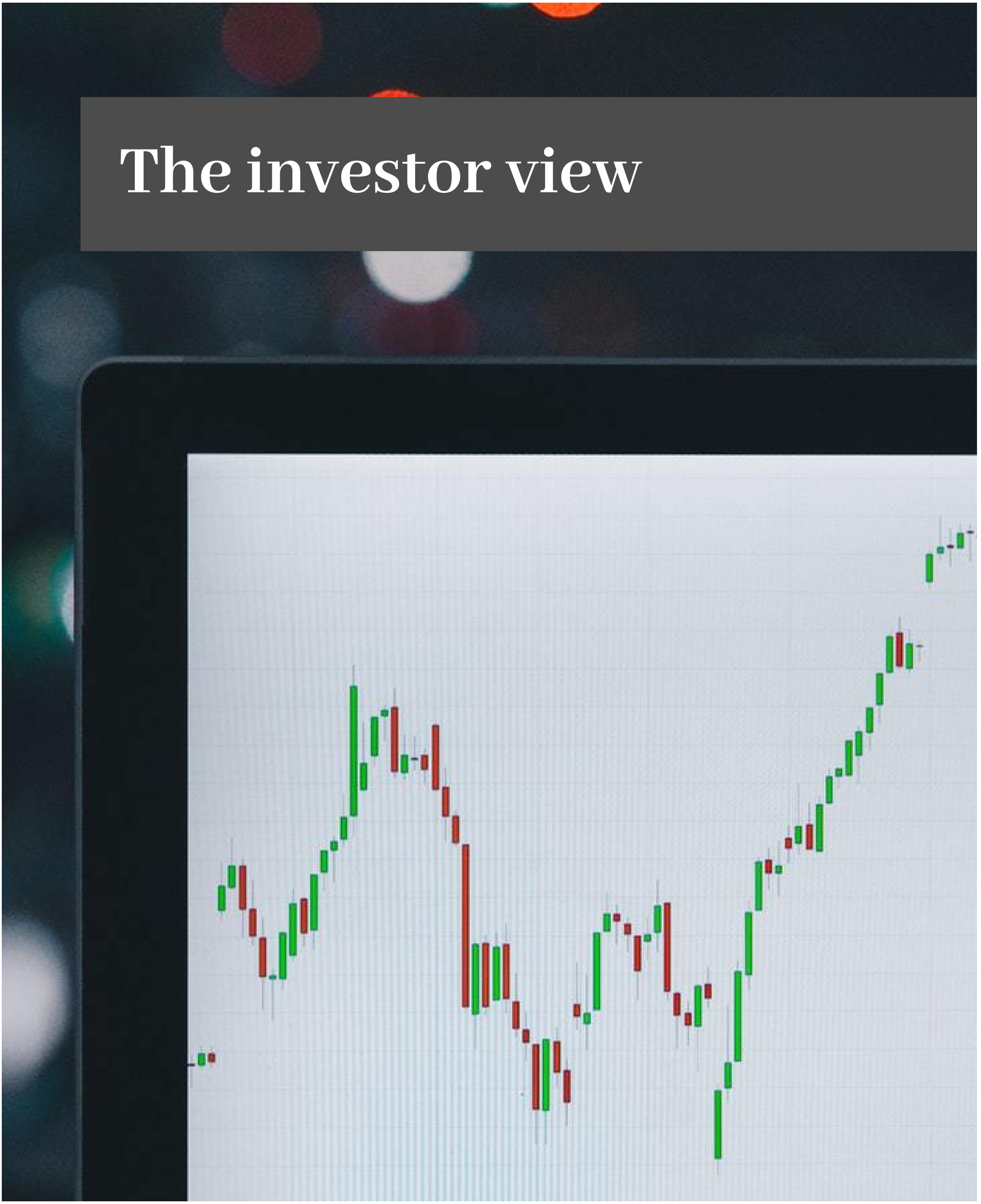
What are the main benefits of ESG disclosure?
Top-ranked choices

	Global	North America	Europe	Asia	Small cap	Mid-cap	Large cap	Mega-cap
Better relationships with shareholders	39%	43%	34%	41%	37%	33%	48%	35%
Futureproofing the business	16%	9%	23%	25%	21%	10%	17%	18%
Opening up new pools of capital (when you would have previously been screened out)	16%	16%	16%	19%	11%	18%	17%	18%
Highlighting potential risks and influencing strategy	15%	11%	16%	12%	18%	21%	7%	12%
Mitigating risks of a proxy fight	12%	20%	7%	3%	11%	18%	9%	5%
More accurate representation of your share price	2%	1%	4%	0%	2%	0%	2%	12%

The investor view

Is ESG relevant to investors?

The investor view

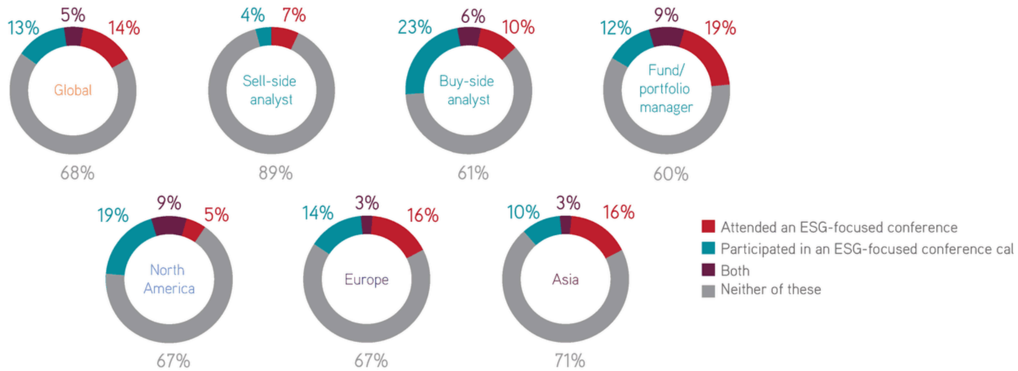


Investor ESG engagement

Less than a third of investment community members have either attended an ESG-focused conference or participated in an ESG-focused conference call in the past 12 months. This is true in every region, although 28 percent of North American investors have participated in an ESG-focused conference call, notably more than in Europe or Asia.

Sell-side analysts are the least likely to participate in these activities: 89 percent neither attended an ESG conference nor participated in an ESG conference call in the past year. The buy side is more likely to engage in ESG, with 29 percent of buy-side analysts having participated in an ESG-focused conference call and 28

Have you participated in an ESG-focused conference or conference call over the last 12 months?



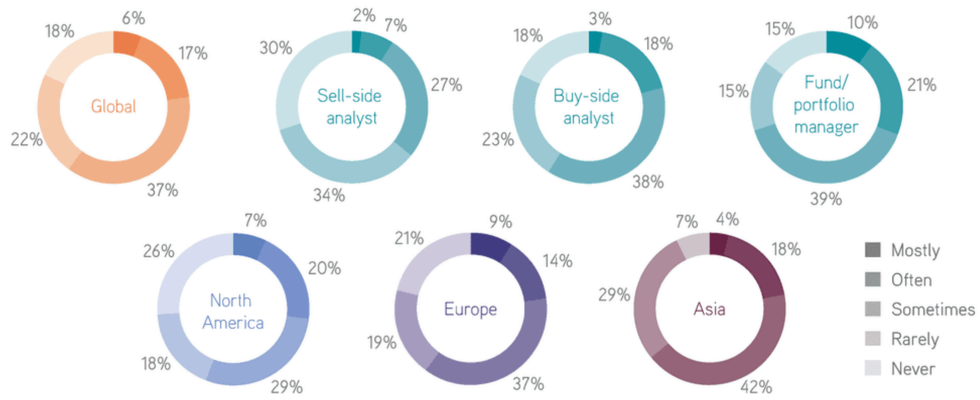
percent of fund managers having attended an ESG-focused conference in the past year.

The majority of the global investment community would rather see ESG reported as part of an integrated report, although this preference is primarily on the buy side. Most North American investors would rather see a separate ESG/sustainability report.

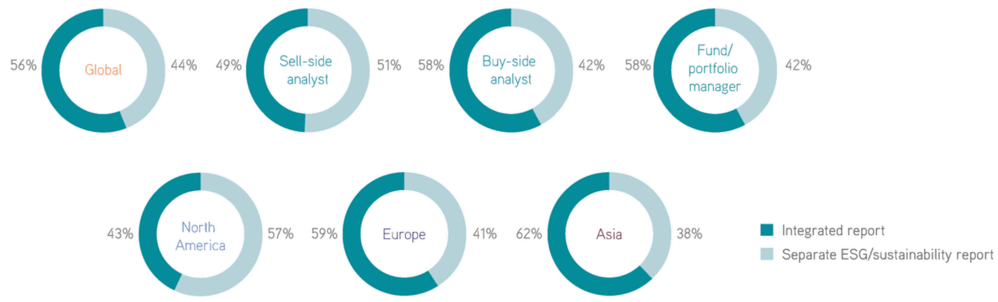
Overall, less than a quarter of investors frequently take account of ESG ratings in their investment decisions, while 22 percent say they rarely take them into account and 18 percent say they never do. North American investors are the most divergent in their ESG considerations, with the highest number saying they mostly or often take ratings into account, while at the same time having the highest number that rarely or never consider ESG ratings in their investment decisions.

Again, it is the sell side that has the least interest in ESG: just 9 percent of respondents say they frequently take ESG ratings into account, while almost two thirds rarely or never do. In contrast, more fund managers (31 percent) mostly or often consider ESG ratings in their investment decisions than rarely or never do (30 percent).

How often do you take account of ESG ratings in your investment decisions?



Do you like to see ESG reported separately or as part of an integrated report?

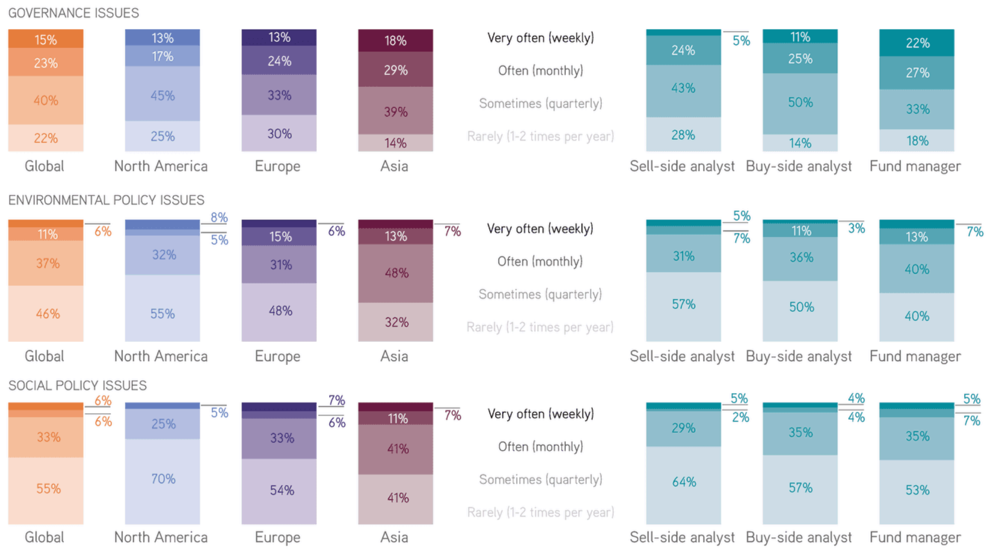


Governance is the issue of most concern to investors, with 38 percent of the investment community polled asking questions on governance at least monthly. Only 12 percent ask questions regarding social policy issues with the same frequency and a majority rarely ask social policy questions over the course of the year.

Not only do Asia-based investors ask governance questions more frequently than North American or European investors, but they also more regularly ask questions about social policy issues. Seven in 10 North American investors asked social policy questions to companies fewer than three times in the past year.

Fund managers show more regular interest in all aspects of ESG than buy-side or sell-side analysts. Almost half ask governance questions to companies on at least a monthly basis. Just 7 percent of sell-side analysts have asked questions on social policy with the same frequency, with nearly two thirds asking social policy questions just once or twice a year.

How often have you discussed the following with companies over the past 12 months?



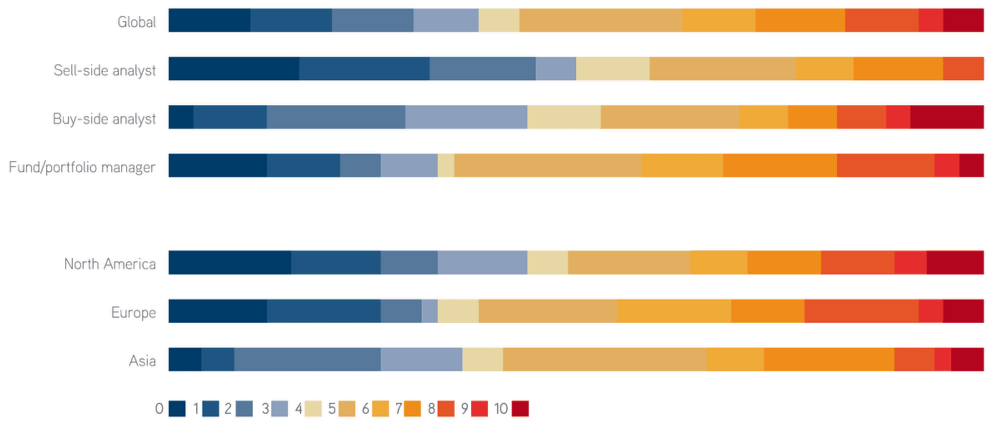
Investor ESG value

When rating how important ESG is in their investment decisions, investors generally have a below-neutral view. Asked to score on a scale of 0 to 10, with 0 meaning ‘not at all important’ and 10 being ‘extremely important’, the global investment community gives an average score of 4.6. One fifth give a neutral score of five, while 37 percent give a score higher than this and 43 percent a score lower.

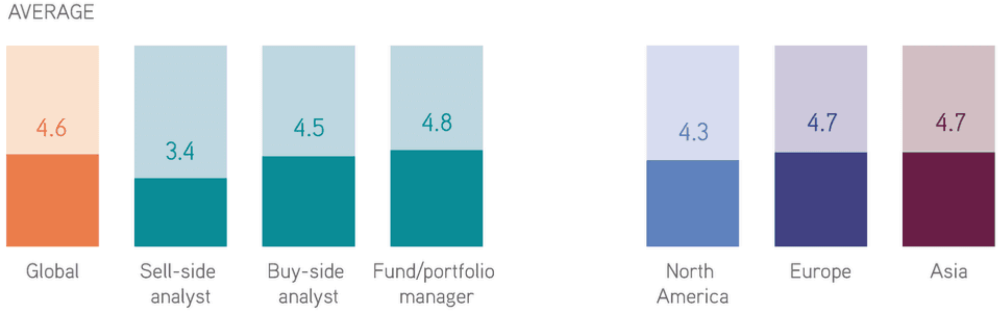
North American investors attach less importance to ESG: more than a quarter of North American respondents give a rating of either 0 or 1, with 49 percent scoring below neutral. European investors gave a rating of eight or higher 22 percent of the time.

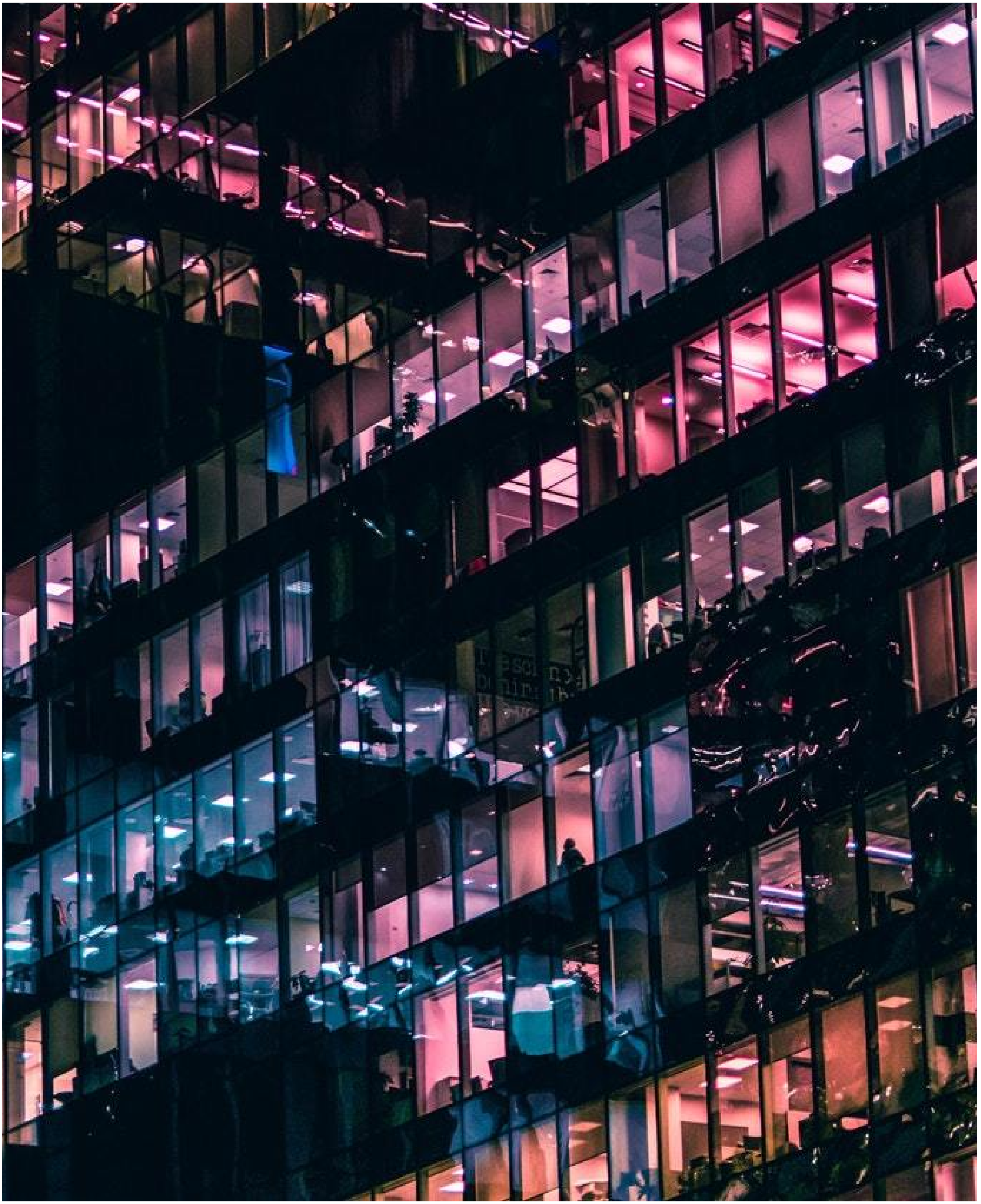
As has been shown throughout this survey, the sell side attaches less value to ESG than the buy side. Here it gives an average score of just 3.4, notably lower than the 4.5 given by buy-side analysts and the 4.8 given by fund managers. Just 23 percent of sell-side analysts give a positive score of six or more to the importance of ESG in their investment analysis. Fund managers are much more inclined to attach importance to ESG in their decisions, with 42 percent giving a rating of six or above.

Overall, on a scale of 0 to 10, how important is ESG in your investment decisions/ analysis?



Overall, how important is ESG in your investment decisions/analysis?





ESG value: Investor comments

Although investors give the importance of ESG in their decision-making a relatively low average rating, this does not give the complete picture of how they view the subject. Their attitudes to ESG are often more nuanced than their scores suggest. When asked to comment on the reasons behind their rating, even respondents who give a below-neutral score of four or less often show an understanding of the increasing relevance of ESG to the investment landscape.

Below is a selection of the comments we received from investors about their rating of ESG importance.

0	'I don't care about ESG at all. I think it's a fad made up by consultants and Europeans'	Fund/portfolio manager	US
	'While it's good for firms to focus on ESG, returns are more important to us'	Fund/portfolio manager	Canada
	'ESG is the biggest waste of paper, time and human resources. The ESG thing to do is to get rid of it'	Fund/portfolio manager	Asia
1	'Although it is gaining more prominence, it is not at the forefront of investors' minds when analyzing equity valuations'	Sell-side analyst	Europe
	'I see ESG as part of the business. It is considered as a risk, like other risks'	Buy-side analyst	Middle East/ Africa
	'It depends on our clients'	Fund/portfolio manager	Europe
2	'ESG is not a topic yet'	Fund/portfolio manager	Europe

3

'The importance is dependent on the company in question: it's of greater importance for companies that are highly regulated and those that have a greater environmental impact'	Sell-side analyst	Canada
'It's important but not a driver. I think it helps the subtle overall direction of the company over time'	Buy-side analyst	US
'I care strongly about corporate governance. More happens behind the scenes between large, passive, long-only investors and corporate boards than the public hears about. Environmental and social are areas of tail risk'	Buy-side analyst	US

4

'No interest from investors'	Sell-side analyst	Europe
'It is important to some investors and many companies have some semblance of it at this point. I do not give credit for having it, though it might be a strike against if not present'	Sell-side analyst	US

5

'ESG factors are being considered at an accelerated pace at my workplace but from a relatively low base'	Buy-side analyst	US
'Considering ESG varies on a case-to-case basis'	Fund/portfolio manager	Asia
'ESG needs to form an element of the investment process, but it is only secondary for my work'	Sell-side analyst	Europe
'It becomes increasingly important as our investors demand more sustainable investments. We also believe economic and ESG sustainability go hand in hand'	Buy-side analyst	Europe
'In Australia it is growing but in fixed income the opportunities are limited'	Fund/portfolio manager	Other
'We see ESG as a risk assessment'	Fund/portfolio manager	Canada
'Some of the portfolios I manage have a process linked to ESG criteria, some not, so the importance is a function of the portfolio – it's not homogeneous'	Fund/portfolio manager	Europe

6

'It's part of the process but not an exclusion criterion'	Fund/portfolio manager	Europe
'It is important just from my personal sense of social responsibility'	Other	Asia
'This is more of a personal decision than client-driven'	Sell-side analyst	US

7

'Governance, followed by environment and finally sustainability – but all are important'	Buy-side analyst	Europe
'ESG will become increasingly important'	Fund/portfolio manager	Canada
'ESG remains a core component of our risk assessment'	Fund/portfolio manager	Canada
'According to some from the investment community, ESG has a correlation with the share price performance'	Fund/portfolio manager	Asia
'Actually, even before it was formalized, it was always important'	Fund/portfolio manager	Europe

8

'ESG is a very important criterion when advising and selecting'	Other	Asia
'ESG is becoming increasingly important as time goes on'	Fund/portfolio manager	Europe
'It's one of the major components'	Fund/portfolio manager	US
'I cover industrials, and safety – while important in and of itself – also tends to correlate positively with margins'	Sell-side analyst	Canada

9

'ESG is part of the risk screening. Poor ESG equals a higher risk premium, and vice versa'	Fund/portfolio manager	Europe
'It's necessary to protect the environment'	Other	Asia

10

'I'll take ESG metrics and disclosure anywhere I can get them. Integrated is best, but don't let integration get in the way of any disclosure. Perfect can be the enemy of good'	Fund/portfolio manager	US

Case study

What does a $5 trillion asset manager want from firms when it comes to ESG?

Adrienne Monley, European head of investment stewardship at Vanguard, talks to *Garnet Roach* about what the $5 trillion asset manager wants from firms when it comes to ESG and how a strong relationship between investor relations (IR) and corporate secretaries makes for better engagement

When Adrienne Monley started in the stewardship arm of Vanguard in 2015, as a leader on the US side, there were around a dozen people working in the team. That has since tripled in size and Monley moved to London in January 2018 to hire and establish a new stewardship team with a specific focus on European firms.

'This globalization has been very deliberate on our part,' she says. 'Partly to reflect the locations of our assets but also because we've found that the more connected we are with markets outside the US, the more we learn about holistic risks and topics potentially relevant to our clients' investments.'

Here she talks about Vanguard's three areas of focus – advocacy, engagement with companies and voting at company meetings – making use of the right tools to assess risk and helping companies understand what the asset manager wants.

What is your focus in terms of the issues you engage on?

[We] really focus on four key areas of corporate governance. The first is boards, and when we look at boards, we're really looking for effectiveness, independence and holistic diversity: diversity of thought, experience and background, as well as diversity across some other dimensions like gender, ethnicity and point of view. We've done a lot of research that shows diverse groups will reach better judgments and decisions. And for our clients, we think that's pretty important at investee companies.

The second area, which is very much related to boards, is the oversight of risk-issue strategy. As an essentially 'forever' investor in companies, the effective oversight of company strategy and the consideration of its risks, including material ESG risks, is absolutely crucial to us. We have been talking with companies about how we expect boards not just to identify and help a company manage those risks, but also – really importantly – to disclose them, to help their shareholders understand what risks exists, and what the company is doing to address them.

The third area is long-term-oriented executive remuneration. That means we want to see alignment between executive pay and company performance. We also want to be sure there isn't an inverse relationship where, if a company doesn't perform well, its executives' remuneration still rises.

The final area is a topic we call 'governance structures', and this is essentially just looking for companies to have the right governance practices in place to ensure the governance process is working effectively. We are also looking for appropriate shareholder rights in place, so shareholders have a voice and can express their voice directly to the board.

What do you think is driving the ESG boom?

One thing bringing attention to these risks is that, actually, some companies are really embracing more communication and reporting on relevant ESG issues. We've also seen different frameworks come to light in the market to support better corporate reporting on environmental, social and non-financial risks.

Company reporting on material ESG risks is one of the areas Vanguard is spending a lot of time on because, for such a widely invested firm as us, great corporate disclosure is – we think – going to help the market be more accurately valued.

We want more comparable and decision-relevant disclosure from companies across the world. We also use tools [such as those offered by reporting frameworks] every day internally as we evaluate firms.

For example, the Sustainability Accounting Standards Board has a tool it calls its Materiality Matrix, which is publicly available and highlights which general topics have the potential to be material risks across individual industries. Vanguard uses this tool as a reference point to validate our assumptions of what risk may be material for a company.

When engaging around these issues, what form does this engagement take?

We talk primarily to boards of directors, and to people who work with them on governance issues, such as corporate secretaries. But investor relations also plays a really important role in shareholder communication. At companies that have been really effective at engagement, I see great partnerships between IROs and corporate secretaries, bridging the gap between financial communications and governance issues.

Taking a step back and thinking about Vanguard's approach to engagement, however, we consume research from a wide range of sources. This includes research on ESG issues, but also company proxy and governance research, as well as a wide range of different tools and frameworks available in the industry. What we try to do is identify if and where there are company governance practices where we have concerns – or feedback – to provide.

Engagement can focus on different topics. Sometimes we provide direct feedback on a particular voting issue or on a particular governance matter. Other times we're just in listening mode, staying updated on a company's progress and monitoring against our priorities.

For example, if a company is publishing its first long-term risk or sustainability report, it may come to Vanguard and ask, 'Was this helpful for

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“ We are less interested in talking about quarterly results than about long-term progress ”

Adrienne Monley

you? What else could we potentially include in this report in the future that will be valuable for a long-term investor?’ To support its progress, we will do a very thorough review. We may refer it to industry comparables, and we’ll share our feedback.

Do you ever come across companies that don’t feel the need to engage with you simply because you won’t sell the stock?

I do sometimes hear that companies focus on discussions with investors that are actively buying or selling their stock. In addition to spending time with active investors, however, it’s equally important for IR professionals to understand the views of their longest-term shareholders.

These shareholders, like Vanguard, are sometimes called ‘patient capital’ and are often interested in having constructive dialogue. That said, I have seen a positive shift in this view – I talk to more IROs today than I have in the last few years. That’s because I think more IROs are recognizing that all the voices in their stock are important, including ours.

What could companies be doing more of to help build relationships with asset managers like Vanguard?

It’s important that companies think about who they’re communicating with, and what the priorities of that investor group are. For example, if you’re stepping into a discussion with Vanguard, it may not be as relevant to bring the quarterly results presentation. Instead, coming prepared to discuss issues like the board, oversight of strategy and risk and other long-term-related issues would be much more constructive. We are less interested in talking about quarterly results than about long-term progress.

I also think when IROs are working with their company’s governance or sustainability professionals, or have a closer relationship with their board, it’s easier to have a high-quality, long-term-oriented discussion. These partnerships can help to bring a great, well-rounded viewpoint to investor dialogue.

In a recent conference I attended, I heard somebody on a panel say, ‘I keep wanting to talk about ESG with investors, but nobody is asking me questions about it’. My immediate thought was that he probably wasn’t talking to his company’s long-term shareholders, because long-term investors would definitely be asking questions about governance and material risk issues.

So it’s important to come prepared with the right content, but also to make sure you’ve got an audience with the right investors.

The corporate governance view

What are the benefits of ESG disclosure to corporate governance professionals?

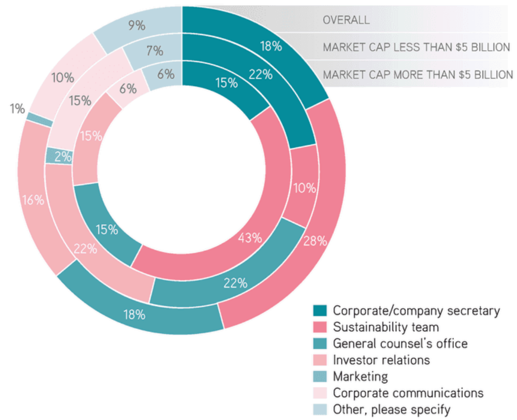
The corporate governance view

Investor interaction

The importance of ESG is highlighted by the fact that more than two thirds (68 percent) of corporate governance professionals polled have personally interacted with investors on the topic over the past 12 months. The most common types of interaction are conducting ESG-focused conference calls (24 percent of respondents having taken part), having group meetings with ESG analysts (23 percent) and attending ESG-focused conferences (22 percent).

Governance professionals at larger companies tend to have more of these direct interactions. Only 21 percent had no such engagement over the past year, compared with 44 percent of respondents at smaller firms. At larger issuers, the most common type of interaction with investors is ESG-focused conference calls

Who has primary responsibility for your company's ESG communications?

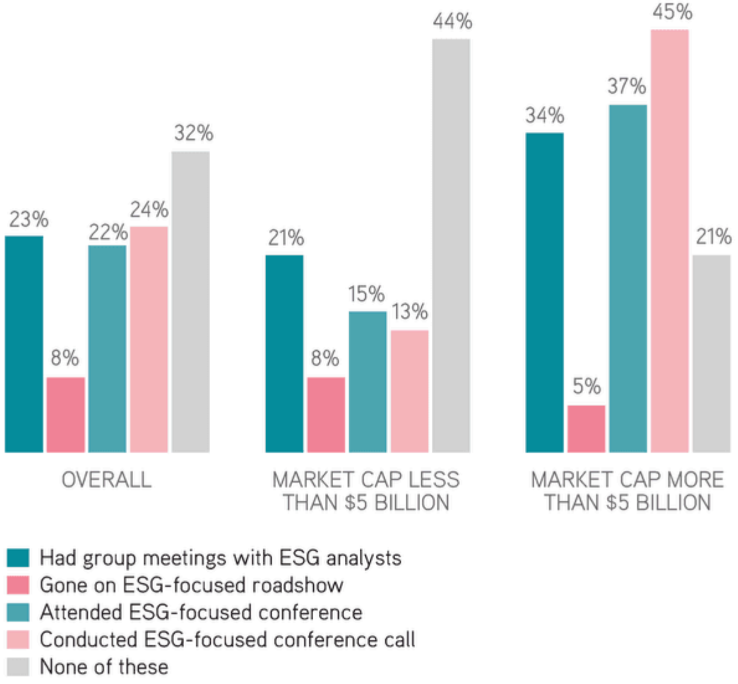


at 45 percent; for smaller companies, it is meetings with ESG analysts at 21 percent.

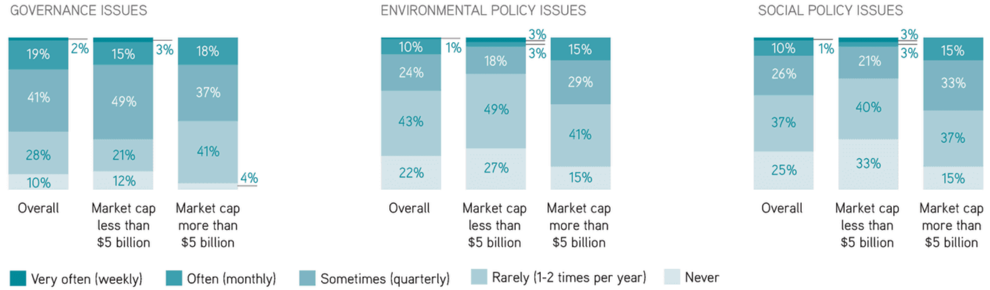
Overall, larger companies are discussing ESG issues with investors more frequently than smaller firms. Almost half (44 percent) of respondents at $5 billion-plus issuers say they have talked about environmental policy with investors at least once a quarter over the past year, with 15 percent saying it has been talked about each month. This compares with 24 percent of respondents at smaller companies who have talked about environmental policy once a quarter or more frequently.

By contrast, more respondents at smaller companies (67 percent) talk on a quarterly or more frequent basis with investors about governance matters than their colleagues at bigger firms (55 percent).

Have you done any of the following over the last 12 months?



How often have you discussed the following with investors over the past 12 months?



ESG ratings

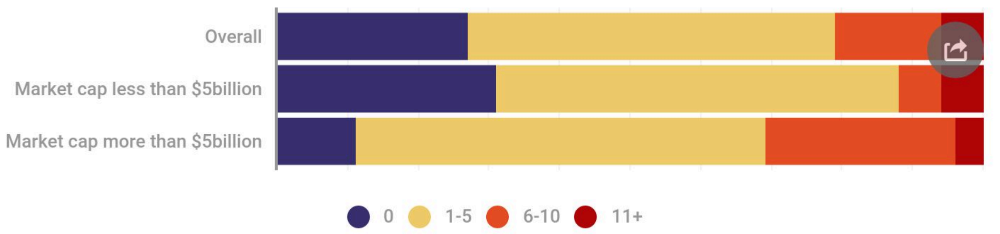
Another ESG-related challenge for companies' engagement teams is responding to requests for information from the variety of ESG rating agencies and index providers seeking to give investors insight. It is an area filled with complexities for issuers due to the nature of the data at issue – often based on intangibles – and how it is collected and compared.

Among those taking part in Corporate Secretary's research, companies respond on average to 7.5 information requests/questionnaires from ESG rating agencies/ index providers each year. That equates to one every seven weeks. Not surprisingly, larger companies that attract more attention and have greater resources tend to respond to more requests (7.8 on average per year) than do smaller firms (7.4 on average per year).

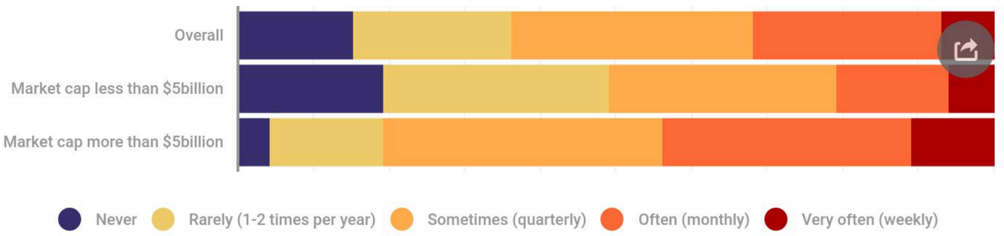
There is a wide disparity between the frequency with which these requests are responded to. Overall, more than a quarter (27 percent) of respondents don't respond to any, although only 11 percent of large companies do not. That may be a result either of resourcing levels or the number of requests received, or a combination of the two. At the other end of the spectrum, 6 percent of respondents are filing more than 11 responses each year.

That said, there is broad interest among companies in keeping tabs on their ESG ratings. Overall, almost two thirds (64 percent) of governance respondents monitor their ratings at least once a quarter. Larger companies are more likely to monitor ratings on a quarterly or more frequent basis (81 percent) than smaller companies (51 percent). Almost one fifth (19 percent) of respondents at smaller firms say they never check their ESG ratings, while just 4 percent of larger companies pay no attention.

How many information requests/questionnaires from ESG rating agencies/ index providers do you respond to each year?



How regularly do you monitor your ESG ratings?



Benefits of ESG disclosure

There are both potential advantages and disadvantages to companies in releasing information about ESG issues. Themes emerge in respondents' comments about some of the benefits to such disclosure. These include satisfying investors' interests, taking control of the narrative about your company and enhancing the company's public standing.

Governance respondents' comments:

- *'Increases credibility and accountability (from investor point of view). Provides opportunity to build relationship with investors. Provides opportunity to message non-financial goals to investor community'*
- *'Transparency'*
- *'Telling a good story'*
- *'Reputational enhancement – the process of gathering ESG information to disclose enhances ESG risk management'*
- *'Our shareholders and stakeholders (board, employees, partners) are increasingly interested in this area'*
- *'To manage investors' and clients' expectations to ensure alignment'*
- *'Investors are increasingly interested in it and use it to inform investment decisions. If we provide ESG disclosure, it reflects positively on the company and allows us to convey our ESG story'*
- *'Improves corporate reputation. Ensures that accurate and robust information about the company and its performance in ESG is in the public domain rather than through a third party where erroneous information is frequently the norm'*
- *'Great way to tell the company's story in a way that appeals to our customer base, particularly younger generations'*
- *'Enables investors to better assess the company's long-term sustainability and the impact of the decisions the company is making on the industry, its customers and other stakeholders'*
- *'Credibility as a good corporate citizen'*
- *'Correction of misinformation. Information will be published by third parties and used by investors/customers/employees, so ensuring your data is factually accurate to the best of your ability is key'*
- *'A way to own the narrative and communicate the ESG efforts that are ongoing in a measurable and tangible way'*

What are the main benefits of ESG disclosure?

'There is a clear rise in the demand from our shareholders for robust ESG dialogue and disclosures. They understand the relationship between ESG and business value, and the integral role ESG considerations play in forecasting performance, measuring risk and assessing a company's ability to sustain competitive advantage over the long term. And importantly, ESG issues are key drivers in our strategy, purpose and philosophy. Articulating our corporate narrative without ESG considerations would be telling an incomplete story'

– Rishi Varma, general counsel, Hewlett Packard Enterprise

Challenges of ESG disclosure

Themes also emerge about the challenges of preparing ESG disclosure. These include handling the quantity of data involved and ensuring its accuracy and relevance, as well as dealing with the variety of metrics and standards used in the industry.

Governance respondents' comments:

- *'Volume and inaccuracy. Prioritizing as well as ensuring information is reportable, repeatable and auditable'*
- *'Understanding which data is truly relevant for each stakeholder. Data gathering'*
- *'Typically, if there is not a good story to tell or problems occur from year to year'*
- *'Too many varying approaches, many long surveys'*
- *'Timely and efficient processes for approval of information. Some reviews or approvals can involve way too many people, which frequently impedes the process and preparation'*
- *'There are a lot of specific questions in broad areas of the business, which requires input from lots of people'*
- *'The number and length of disclosures – there's no uniform framework'*
- *'So many different standards and, just like politics, each side of the issue can find support for its position in any numbers'*
- *'Requests from different ratings firms, in different formats with varying degrees of complexity. Some providers take only public sources, others take both public and private. Lack of uniformity in the ESG reporting industry as a whole'*
- *'Obtaining proper management buy-in. Obtaining proper financial resources to support additional head count'*
- *'Lack of consistent, comparable data, varying methodologies between surveys and rankings overwhelming demands on very small teams in preparation of the submissions'*
- *'It's an insanely broad area, with many different stakeholders interested in many different aspects, so it's very hard to determine what should be disclosed, how, how often, to whom, and so on'*
- *'Investors often want more detailed information and data than we readily have or are comfortable disclosing'*
- *'Smaller companies find it challenging to plan, track and report on all items. Additional layers of governance can hamper a company's ability just to do business'*

What are the main challenges of preparing ESG disclosure?

'One of the challenges in focusing ESG disclosures is that ESG concerns vary by investor and stakeholder, and while helpful guiding frameworks have been proposed, there is no universally adopted standard for measurement or disclosure. Accordingly, we engage deeply and continuously with our investors and stakeholders to learn what is most important to them and how we can most effectively report on our ESG progress, risks and opportunities'

– Rishi Varma, general counsel, Hewlett Packard Enterprise

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