A4S
CFO LEADERSHIP
NETWORK

ESSENTIAL GUIDE TO ENHANCING INVESTOR ENGAGEMENT

A practical guide for investor relations teams to engage on the drivers of sustainable value

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WHAT IS INCLUDED

This is a practical guide for investor relations (IR) teams on communicating effectively with investors about sustainability. It explains how to engage with investors on sustainable business and the integration of environmental and social factors as drivers of value. This revised version has been updated to reflect the latest developments and rapidly changing investor relations landscape.

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Anglian Water

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Direct Line Group

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KPMG

Lindsell Train

National Grid

PwC

Telus

Wellington Management

Yara International

INTRODUCTION FROM THE A4S CFO LEADERSHIP NETWORK

What was once an argument or even a radical proposition is now an accepted truism: being a sustainable business is essential for success. This is a commercial imperative. It is also a moral imperative, and a tremendous opportunity for us all. To invest in a truly sustainable economy. To help secure our shared future. To realize that value creation and sustainable innovation are complementary, necessary and expected.

This guide was originally developed in 2014. It was, you could argue, ahead of its time. Since then, we have seen a dramatic increase in investor focus on sustainable business and environmental and social topics. Investors are first in line of all those wanting to know what companies are doing on environmental, social and governance (ESG) matters, how they are approaching long-term value creation, how they are addressing issues related to climate, to water and to diversity, and if the commitments they are making publicly are credible.

And therein lies the opportunity: companies that are truly committed to creating value for shareholders, customers, employees and society in both the short and long term can take advantage of this growing interest. To do this, they must demonstrate to investors that their business model, strategy, governance and performance are responding to these risks and opportunities.

That makes this updated version of the A4S Essential Guide to Enhancing Investor Engagement especially timely. It has been created by investor relations teams for investor relations teams, drawing on practical experience as well as interviews with companies, asset owners, asset managers and other participants in the investment value chain. The project included inputs from experts in the field, a survey run in partnership with the IR Society and a roundtable discussion between CFOs, IR directors and representatives from a variety of players from the investment industry. The guide provides insights on key trends, suggestions for effective engagement, communication and disclosure, as well as practical examples from industry leaders in the form of case studies.

This A4S Essential Guide will give issuers the tools for successful engagement with investors in today's evolving landscape, helping to ensure IR teams and portfolio managers work effectively from both a commercial and purposeful business perspective. We hope it inspires organizations and individuals to drive social and environmental improvements through constructive engagement and that it will be of use to those in the investor community.

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FOREWORD

There is no doubt that environmental and social factors are not only core business matters for all leading companies, but also are increasingly fundamental to the way investors are considering how and where they invest. Following the COVID-19 pandemic, social issues such as diversity and inclusion are at the forefront of our thinking, and the scale of the climate emergency and its impact on the global economy have never been clearer. For businesses around the world, there has never been a greater focus on sustainability.

Over recent years, the degree to which social and environmental aspects are integrated into investment decision making and interactions between companies and their investors has increased significantly. Companies that are committed to creating value for shareholders, customers, employees and society in both the short and long term can take advantage of this growing demand by demonstrating to investors how their business model, strategy, governance and performance have responded to environmental and social risks and opportunities. There are several actions that companies can take to make this engagement as effective as possible.

Sustainability has to be at the heart of strategy, culture and operations. It is arguable that only those businesses which recognize their impact and take proactive action to minimize it will succeed, but these impacts clearly differ between businesses.

As a result, clear and consistent reporting is essential to allow measurement of progress, accountability and comparability. Companies should set targets relevant to their business and update on progress, integrate ESG into core investor messaging, and make information easy to access and interpret for all their stakeholders.

At the same time, the demand for and availability of data and information around ESG performance have increased significantly, including in many cases from third parties such as regulators and rating agencies, creating challenges for companies and investors alike. Businesses need resources to meet reporting requirements, and investors need a view of what information is most relevant. Without clarity on reporting requirements and investor expectations around data, companies risk spending more time on reporting than doing, and investors' ability to assess and compare progress is lost in the noise. This is where two-way dialogue is key. On the one hand, companies need to understand how investors incorporate sustainability into their investment decision-making process and form a clear view of what information they need and how they expect it to be delivered. On the other hand, investors need to work collaboratively with companies, understanding the key social and environmental issues they face and how they are addressing them within their business, while holding them to account in an appropriate and constructive way.

For all the above reasons, this update to the A4S Essential Guide to Enhancing Investor Engagement could not be more timely. This guide includes insights from companies leading the way in this area, inputs from a variety of investors and knowledge from experienced advisers in the field.

DAVID WALKER
CHAIR, INVESTOR RELATIONS SOCIETY
COO AND INVESTOR RELATIONS DIRECTOR, BRITISH LAND

"At British Land, we launched our new Sustainability Strategy in 2020, setting stretching targets for 2030 which we are now reporting against. We also have identified a clear and compelling commercial rationale for sustainability which gives credibility to our approach and has gained real traction with investors and analysts. We held a dedicated sustainability investor event last year and regularly participate in industry conferences on sustainability, so our people who are delivering the strategy are becoming known to investors. There is more we will do, but sustainability is now part of our everyday dialogue and that is real progress."

WHY ENGAGE WITH YOUR INVESTORS ON SUSTAINABILITY?

OUR SURVEY RESULTS

As part of the A4S Enhancing Investor Engagement project, A4S ran a survey addressed to investor relations teams in partnership with the IR Society to gather insights and assess current practice in the incorporation of ESG factors in investor engagement. The main highlights are presented here. All results are presented on an anonymous basis.

IMPORTANCE

100%

of respondents said they experienced increased investor interest in ESG topics in the last three years.

INTEGRATION

>50%

of respondents said that discussions on how sustainability is embedded in the business is a standard part of their investor engagement.

EFFECTIVENESS

86%

of respondents believe that having sustainability fully integrated into the business strategy will lead to having effective conversations with investors.

TOPICS

>90%

of companies and investors put strong emphasis on climate change, followed by employee wellbeing, diversity and inclusion and supply chain considerations.

ALIGNMENT

54%

of respondents believe their disclosure efforts are matched by investor interest.

WHY ENGAGE WITH INVESTORS

Companies are finding that more and more investors want to talk to them about sustainability.[1] In an A4S and IR Society survey of companies run in spring 2021, 100% of respondents said they had experienced increased investor interest in ESG topics. Over 50% said it was a standard part of their engagement with portfolio managers.

This is consistent with other recent evidence. A 2021 survey of institutional investors found that, compared to the previous year, 98% of those surveyed had given more focus to ESG risks and opportunities when engaging with their investee companies, 95% when taking investment decisions and 85% when voting at annual general meetings (AGMs).[2] They cited a range of reasons for this focus, including legislative pressures, client focus, pressure from civil society and a link between sustainability and financial performance.

The drivers for increased investor interest in ESG are explored in more detail below:

THE BUSINESS CASE FOR SUSTAINABILITY IS BECOMING CLEARER

Increasing numbers of studies are finding that there does not have to be a trade off between profitability and a focus on environmental and social factors, and that sustainable firms may financially outperform their less sustainable counterparts.[3, 4] At a minimum, more sustainable firms seem to be less volatile and more resilient, particularly during times of crisis.

SUSTAINABILITY HAS BECOME PART OF THE INVESTMENT MAINSTREAM AND IS HERE TO STAY

Despite (or perhaps, in part because of) the COVID-19 pandemic that swept the globe, assets in sustainable investment funds hit record highs during 2020. This trend continued in the first half of 2021.[5] A variety of factors (regulatory pressure, policy change, generational transitions and increasing client demand) suggest that this is not a fad, but a structural shift in the investment landscape. Investors are looking not just at effective risk management but at the opportunities that focusing on environmental and social factors might bring.

1 For the purposes of this report, the terms ‘sustainability’ and ‘ESG’ are sometimes used interchangeably. However, while sustainability is often used as shorthand for environmental, social and governance (ESG) factors, in the broader sense the term can also refer to what it takes for an organization to achieve long-term existence, profitability and growth. In this understanding, sustainability is not the same or synonymous with ESG, but rather encompasses ESG because all three elements of ESG contribute to the sustainability of the organization and the impacts of the organization on society and the environment.
2 Morrow Sodali (2021), ‘Institutional Investor Survey 2021’.
3 Riding S. (2020), ‘Majority of ESG funds outperform wider market over 10 years’, Financial Times, 13 June 2020.
4 BlackRock (2020), ‘Sustainable investing: Resilience amid uncertainty’. Accessed: 22 March 2021. Available online.
5 Tew I. (2020), ‘ESG inflows quadruple in 2020’, Financial Times, 5 November.

INVESTORS ARE INCREASINGLY BEING HELD ACCOUNTABLE FOR THE ENVIRONMENTAL AND SOCIAL PERFORMANCE OF THEIR INVESTMENTS

Recent regulatory initiatives mean that investors are being evaluated on the environmental and social performance of their portfolios and their role in promoting the sustainability (or otherwise) of assets in the portfolio. Such initiatives include the Sustainable Finance Disclosure Regulation (SFDR) in the EU[6], the enhanced stewardship requirements in the UK[7], the guidelines on environmental risk management in Singapore[8] and the stewardship code in Japan[9] (to name just a few). Many investors now have to assess (and report on) key environmental and social metrics as well as the outcomes of corporate engagements. While investors will prefer to source data from companies, they will rely on proxies if it is unavailable.

INVESTORS ARE PURSUING THEIR OWN ESG GOALS THROUGH COLLABORATIONS

Often coordinated through investor-focused nongovernmental organizations (NGOs), investors are increasingly coordinating action around their own environmental and social commitments (see, for example, the Net Zero Asset Owners Alliance[10]) and collaborating to drive company action on specific issue areas (see **Box 2** on the following page for a discussion on Climate Action 100+).

The result of these factors is that companies will face greater demands for information about their performance on a range of ESG topics and greater pressure to demonstrate improvement in key areas. Companies that cannot show that they understand their environmental and social risks, impacts and opportunities and have (or are in the process of introducing) effective measures to manage them, may find themselves having difficult conversations with their investors. This could include shareholder resolutions at company AGMs and votes against directors. In the same institutional investor survey referred to above, nearly 60% of investors said they would consider filing or co-filing an ESG-related shareholder resolution.

While this may sound daunting, and undoubtedly puts more pressure on companies, it also presents many opportunities. Forward-thinking companies and investors understand the benefits of effective engagement. A report by the PRI on ESG engagement[11] found that if done in the right way, the act of engaging creates value for both companies and investors by:

- Enabling the exchange of information between companies and investors thereby enhancing communication.
- Helping to produce and share new ESG knowledge between companies and investors.
- Building and strengthening internal and external relationships within both companies and investors.

Companies that are committed to creating value for shareholders, customers, employees and society in both the short and long term can build stronger relationships with investors. Investors that have more confidence in a company's business model, strategy, key resource needs and main risk factors are likely to be more willing to provide the capital the company needs to achieve its aims.

6 European Commission, 'Sustainability-related disclosure in the financial services sector'. Accessed: 6 April 2021.
7 Financial Reporting Council (2020), 'The UK stewardship code'. Accessed: 12 July 2021.
8 Monetary Authority of Singapore (2020), 'Guidelines on environmental risk management for asset managers'. Accessed: 9 July 2021.
9 Financial Services Agency (2020), 'Principles for responsible institutional investors (Japan's Stewardship Code)'. Accessed: 9 July 2021.
10 UNEP FI, 'UN-convened Net-Zero Asset Owner Alliance'. Accessed: 6 April 2021.
11 Gond J. P. et al. (2018), 'How ESG engagement creates value for investors and companies', Principles for Responsible Investment. Accessed: 16 March 2021.

BOX 1: UNDERSTANDING INVESTOR EXPECTATIONS

Investors want to see investment returns. How this intersects with their approach to sustainability will depend on a range of factors, including their investment time horizons:

- Some investors will focus on specific ESG factors in the hope that this will drive financial outperformance.
- Others may not expect ESG to drive outperformance but, within a peer group, will look to invest in companies that are relatively better ESG performers.
- Others (for example, because they are index investors) are more focused on encouraging companies to improve their sustainability performance than selecting for ESG performance at the outset.
- Others will exclude companies that do not adhere to good corporate conduct (eg companies that are found guilty of bribery or corrupt practices or causing severe environmental damage) or that are involved in certain lines of business (eg coal production).

This means that different investors – and even different funds within the same investment firm – will prioritize different ESG issues and incorporate them into their investment decision making in different ways. Companies cannot control this. What you can do is try to understand what issues your main investors are focusing on and how they are approaching engagement.

Fortunately, some investors are becoming more transparent about the types of ESG issues they look at when making investment decisions, the sources they use to compile their assessments, their disclosure/reporting expectations and their approaches to stewardship/engagement. This transparency makes it easier for companies to gain insight into investor priorities and incorporate this knowledge, where appropriate, into their investor engagement. For example, BlackRock provides the following information on its website:

- **Engagement priorities for 2021** – describing its priorities for investment stewardship.
- **2021 stewardship expectations** – summarizing the changes it has made for the coming year and the full set of updated principles and voting guidelines.
- **Global principles** – setting out its stewardship philosophy and views on corporate governance and the sustainable business practices that support long-term value creation by companies.
- **Market-level voting guidelines** – providing detail on how it implements the Global Principles, taking into consideration local market standards and norms.

Having an effective stakeholder engagement process can also help you to identify topics that may become more relevant for investors over time. Investor relations teams should ensure that they are part of these stakeholder conversations.

Further reading: '**Global trends in investor relations**', BNY Mellon, 2020

BOX 2: CLIMATE ACTION 100+

Climate Action 100+, which launched in December 2017, is an investor-led initiative aimed at progressing action on climate change at the world's largest corporate greenhouse gas (GHG) emitters. By the end of 2020 the combined assets under management of participating investors had topped US$50 trillion. In March 2021, the group published its Net Zero Company Benchmark, which assesses the performance of focus companies against the initiative's three high-level goals: emissions reduction, governance and disclosure.[12] The objective of the benchmark is to help its investor signatories evaluate company ambition and action in tackling climate change, and ultimately to support investor engagement with companies.

This is only one of a growing number of investor initiatives focused on tackling specific sustainability challenges through collective action.

12 Climate Action 100+ (2021), '**Net-Zero Company Benchmark**'. Accessed: 21 April 2021.

CASE STUDY

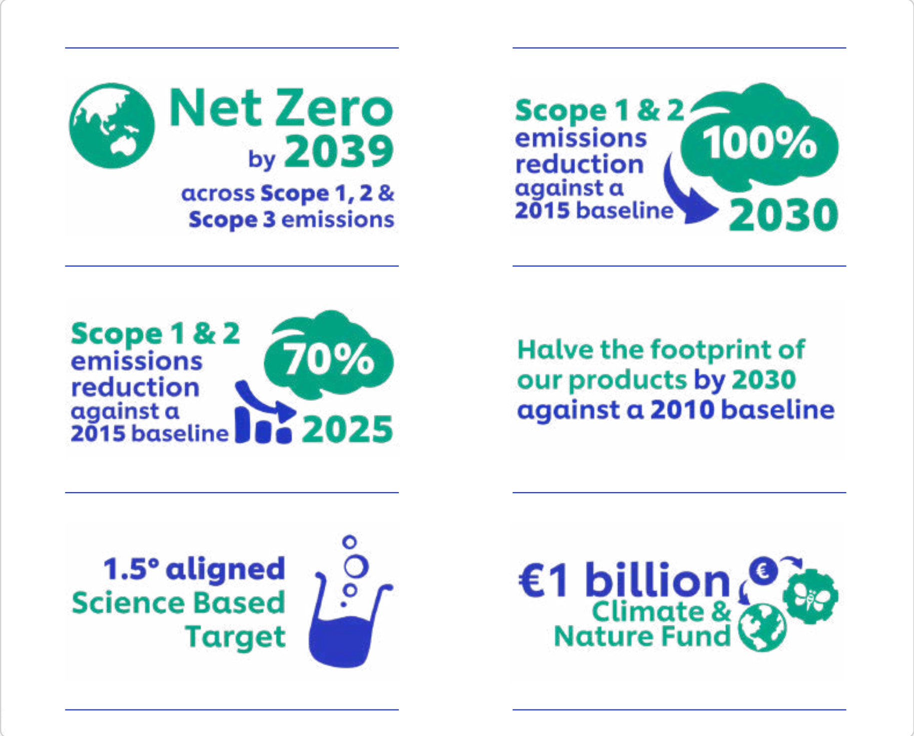
UNILEVER: GIVING INVESTORS A 'SAY ON CLIMATE'

In December 2020, we announced that we would be giving shareholders a non-binding advisory vote on our climate transition action plan. This was the first time that a major global company had voluntarily committed to putting its climate transition plans before shareholders for a vote. We had several reasons for doing this.

We recognized that reaching net zero across the whole economy requires engagement between companies and investors. Putting the action plan to a vote at the AGM strengthens the nature and the quality of the engagement. It also demonstrates our commitment to following through on the plan, given that it includes many multi-year targets, and a willingness to be held accountable for delivery against it. The 2021 AGM was a first step in an ongoing process of engagement and we were very pleased that it received over 99% shareholder support. We intend to report annually on our progress in the areas outlined under the plan and seek an advisory shareholder vote every three years.

We hope our approach and the result will encourage other companies to follow suit. We believe investors will increasingly expect to have a say on climate. By engaging in this way, we improve the outcomes for all.

For further reading, see 'Enhancing Investor Engagement case study – Unilever'.



Source: Unilever, 'Climate transition action plan', March 2021

Unilever

CASE STUDY

S&P GLOBAL: 'SAY ON CLIMATE'

Climate stewardship is a key component of S&P Global's sustainability efforts. We are committed to clear, meaningful and transparent disclosure and we value the contributions of our stakeholders in shaping the company's climate change strategy.

To broaden stakeholder engagement and solicit feedback, we gave shareholders the opportunity to provide their advisory, non-binding vote on our Greenhouse Gas Emissions (GHG) Reduction Plan at our May 2021 Annual Shareholders' Meeting. We believe this opportunity to vote on the proposal was the logical next step in our continuing efforts to enhance our ESG disclosure strategy.

Furthermore, as a consequence of our disclosed plan, we also had indepth dialogue with numerous shareholders about our Greenhouse Gas Emissions Reduction Plan and the Say on Climate initiative during various seasonal pre-Annual Meeting engagement meetings.

Our shareholders approved our Greenhouse Gas Emissions Reduction Plan with over 99% support. We view this outcome as an affirmation of our existing commitment to climate change mitigation and as a key component of our journey to be net zero by 2040.

S&P Global

BOX 3: SAY ON CLIMATE': HOW ARE INVESTORS RESPONDING?

As the case studies highlight, companies have shared that they have found the 'Say on Climate' process and investor response to be on the whole positive. In some instances, however, companies have faced challenges when putting their climate plan to a shareholders' vote. This has been the case particularly with some US investors. These investors have expressed concerns on the basis that management should be responsible for the company's actions on environmental and social aspects and business performance and should not abdicate responsibility to shareholders.

Despite this challenge, most companies have felt that giving shareholders a 'say on climate' is still a worthwhile process, but be ready to respond to any challenges!

> ***Say on Climate's principles complement our belief in the importance of transparency and disclosure as well as the market-leading steps we have taken towards becoming net zero by 2040.***
>
> EWOUT STEENBERGEN, EXECUTIVE VICE PRESIDENT AND CFO, S&P GLOBAL

CASE STUDY

SSE: ENGAGING INVESTORS ON A JUST TRANSITION

In early 2020, we were approached by two investors – Royal London Asset Management (RLAM) and Friends Provident Foundation – that invest in energy companies. They wanted to know how we were thinking about the ‘just transition’ and what our strategy was in this regard. We agreed that they should raise this question at our 2020 AGM where we provided a formal response, committing to producing a just transition strategy in time for our half-year results.

Our engagement did not end at this point. When developing the strategy, we worked very closely with the LSE Grantham Institute, RLAM and Friends Provident Foundation. They provided initial input and feedback on subsequent drafts as our thinking evolved. We published the final strategy in November 2020.

Since the launch, we have had extensive investor interest in and engagement with the strategy. In addition to this becoming a regular topic raised in investor meetings with SSE’s executive directors and IR team, our Chief Sustainability Officer has participated in more than ten stakeholder conferences, of which four were investor events, to present our strategy and gain further feedback.

For us, this process has been a positive demonstration of the benefits of constructive investor engagement. We learned a lot from the investors, and they from us, during the process and it helped us develop a meaningful strategy that will have positive outcomes for both investors and society at large.

For further reading see SSE's Just Transition Strategy.

SSE’S 20 PRINCIPLES FOR A JUST TRANSITION

TRANSITIONING INTO A NET-ZERO WORLD			TRANSITIONING OUT OF A HIGH-CARBON WORLD	
SSE’S PRINCIPLES FOR GOOD, GREEN JOBS (page 9)	SSE’S PRINCIPLES FOR CONSUMER FAIRNESS (page 12)	SSE’S PRINCIPLES FOR BUILDING AND OPERATING NEW ASSETS (page 13)	SSE’S PRINCIPLES FOR PEOPLE IN HIGH-CARBON JOBS (page 15)	SSE’S PRINCIPLES FOR SUPPORTING COMMUNITIES (page 18)
1. Guarantee fair and decent work	5. Co-create with stakeholders	9. Support competitive domestic supply chains	13. Re-purpose thermal generators for a net-zero world	17. Deliver robust stakeholder consultation
2. Attract and grow talent	6. Factor-in whole-system costs and benefits	10. Set social safeguards	14. Establish and maintain trust	18. Form partnerships across sectors
3. Value employee voice	7. Make transparent, evidence-based decisions	11. Share value with communities	15. Provide forward notice of change	19. Promote further industrial development
4. Boost inclusion and diversity	8. Advocate for fairness	12. Implement responsible developer standards	16. Prioritise retraining and redeployment	20. Respect and record cultural heritage

Source: SSE, ‘Supporting a just transition’, November 2020

BOX 4: INTEGRATING SUSTAINABILITY INTO INVESTMENT DECISIONS – INSIGHTS FROM AN A4S ROUNDTABLE

While the idea that businesses and investors both need to integrate sustainability into their decision making is now well accepted, exactly what that means in practice is still a work in progress.

As a company, how do you respond to diverse areas of interest and investor demands, and how do you maximize investors' interest in this agenda? As investors, how can you best factor sustainability into investment decision making, and what are the right time horizons to use?

In addition to these questions, while there are growing numbers of investors who are incorporating ESG factors into their investment analysis and demanding more sustainable conduct from the companies they invest in, there are other investors who remain focused primarily on maximizing short-term financial returns. Even companies that believe they are doing a good job of explaining which environmental and social factors are important for creating business value struggle sometimes to understand what investors are looking for.

To unpack some of these topics, A4S hosted a roundtable in June 2021 for members of its **CFO Leadership Network** and representatives of the asset manager and asset owner community, including members of the **A4S Asset Owners Network.** Here are some key takeaways from the roundtable:

- Engagement between companies and investors is critical. The transition to sustainable business and investment practices is underway, but it is a journey that requires commitment from both sides.
- Among growing concerns about greenwashing and misselling, investors are increasingly assessing the credibility of companies' sustainability commitments, statements and reporting. As evidence, they look for the ability of senior management to address key sustainability topics, integration into the business narrative and investment plans, links to executive compensation, setting of clear targets and reporting of progress against targets.
- Both investor relations professionals and portfolio managers need to improve their fluency on relevant ESG topics. Senior management (including the CFO) need to be able to talk to key sustainability issues. Ideally, everyone in the organization should be able to talk to the sustainability strategy.
- Investors acknowledge the ever-increasing ESG reporting burden and divergent data requests but believe this is likely to persist for a while, particularly as regulatory expectations around investor reporting (such as SFDR) increase.
- Investor diversity also means that complete convergence around a few environmental and social topics, while desirable, is unlikely. Companies should expect that they will be asked about a range of topics by investors, making it important for them to be able to explain clearly why they focus on certain issues as a business.
- All investors want more data and metrics but stress that the data disclosed needs to be contextualized and tied back to strategy and business performance.
- While progress has been made on environmental data, there is still a lack of good data on social factors and too little forward-looking data. Lack of standardization is still a problem creating comparability challenges for investors and contributing to companies' reporting burden.
- The finance team can play a role in supporting the tracking of and reporting on ESG metrics.

BOX 5: DIFFERENT APPROACHES TO ENGAGEMENT

One of the things that companies are grappling with is how to reconcile apparent investor interest in ESG topics with what sometimes feels like inconsistent engagement.

While there is no easy answer to why this is, part of the reason may be the different philosophies about, and approaches to, engagement. The factors that will influence how investors engage include the way they invest (eg whether they are active or passive), their investment timeframe, how they think about shareholder responsibility and the level of interest from clients or others to whom they are accountable.

Reasons for engaging (sometimes even by the same investor) will vary and may include:

- To supplement research that the investor has done on the company.
- To clarify information that the company has put out or that has been published about the company.
- To assess the quality of management.
- To evaluate the company's strategy.
- To deepen understanding of the company's investment and growth prospects.
- To evaluate performance relative to peers.
- To identify potential vulnerabilities and ability to mitigate risks.
- To identify differentiation opportunities and competitive advantages.
- To drive behavioural change at the company.

This engagement can take place both when deciding whether to invest and as an ongoing part of the shareholding.

Most investors do not have the resources to engage directly with companies on all topics on a consistent basis. It is therefore not unusual for investors to prioritize both companies and topics. In deciding whether to engage with companies on ESG, investors may consider:

- Whether the company is an outlier in terms of performance on key ESG metrics (and sometimes ratings – see Box 8 on page 56 for a discussion on ratings and rankings).
- If there are particular ESG topics that are flagged at a company, which are also topics of concern for the investor and its clients.
- Whether the company has a track record of disregarding investor concerns.
- The size of the shareholding and how long the investor intends to hold the company.
- Whether other shareholders believe that a particular ESG topic needs to be addressed.
- Whether they believe they can offer constructive input on a specific issue.

Passive investors with large portfolio holdings may focus on specific ESG topics or themes across their portfolios or rely on ESG screens provided by ratings agencies to identify topics for engagement. Active investors, particularly with larger shareholdings and longer investment horizons, will tend to do more company-specific assessments and prefer more detailed engagement.[13]

Holders of corporate debt tend to be less engaged than equity investors on company-specific environmental and social topics, though this is changing as the understanding of the links between the ability to repay debt and corporate management of ESG is better understood.

13 Eccles R., Mooij S. and Stroehle J. (2021), 'Four strategies for effective engagement'. Accessed: 9 July 2021.

HOW DOES SUSTAINABILITY IMPACT YOUR BUSINESS?

KEY TRENDS IMPACTING YOUR BUSINESS

Sustainability issues are business issues. While the specific factors that are most relevant to your company will vary depending on the nature of your business and the geographies in which you operate, there are certain universal environmental and social factors that are likely to impact all companies in some way.

There is a growing recognition of the need to address systemic environmental crises such as biodiversity loss and climate change. Social issues, such as equity, diversity and inclusion, are also becoming business critical. A new generation of consumers, employees and shareholders is expecting more from businesses at a time of growing ability to identify and unite around issues of concern.

These factors have a profound impact on the operating environment for business, presenting both risks and opportunities. Examples of some of the key trends impacting business over the coming decades, many of which are interconnected, are summarized below.

CLIMATE CHANGE

Under the landmark Paris Agreement in 2015, countries around the world have committed to limiting global warming to 2°C by 2100 compared to preindustrial times, and to strive for a maximum 1.5°C rise in global average temperatures.[14]

The physical consequences of climate change, such as rising sea levels and changing rainfall patterns (which leads to increased drought in some areas and flooding in others) and more extreme weather events will have potentially severe economic impacts.[15] A recent study estimates that failing to meet the Paris target could result in an additional 10% loss in global economic value.[16] However, the large-scale changes needed to limit global heating will have their own impacts. Companies will have to navigate both rapidly changing policy and technological environments (transition risks) and a changing physical environment (physical risks). This includes taking action to mitigate their own impact on climate change.

The severe consequences of global heating also gave rise to a new reporting framework: the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.[17] Since their publication in 2017, the TCFD recommendations have become the benchmark disclosure framework for climate-related financial risk and a baseline expectation of many investors.

14 UNFCCC (nd) 'The Paris Agreement'. Accessed: 16 August 2021.
15 NASA, 'The effects of climate change'. Accessed: 10 July 2021.
16 Guo J., Kubli D. and Saner P. (2021), 'The economics of climate change'. Accessed: 9 July 2021.
17 TCFD (2017), 'Final report: Recommendations of the Task Force on Climate-related Financial Disclosures'. Accessed: 10 April 2021.

BIODIVERSITY LOSS AND DESTRUCTION OF NATURE

Humans are destroying nature at an astonishing rate. Estimates in 2020 suggest we are significantly overshooting planetary boundaries, contributing to growing species extinction.[18,19] While a tragedy in its own right, this destruction also poses severe economic and social threats. Over half the world's GDP (approximately US$44 trillion) is moderately-to-heavily reliant on nature and biodiversity.[20] Some estimates suggest that continued destruction of the 'ecosystem services' that nature provides carries an annual cost to GDP of US$479 billion.[21] The activities associated with biodiversity loss and destruction of nature, such as land use change and increased agricultural activity, also increase the likelihood of the emergence of pandemics.[22] Some industries, such as agriculture, construction, and food and beverage manufacturing, are highly dependent on biodiversity and nature. Other industries, such as real estate, tourism and consumer goods, though less directly exposed, have dependencies through their global supply chains.[14]

Given the complexity and systemic quality of nature and biodiversity, these issues are incredibly challenging for companies or investors to manage. Achieving a nature positive state is dependent on collective action. A key initiative is the **Taskforce on Nature-related Financial Disclosures (TNFD)**, which aims to deliver a framework to report and act on evolving nature-related matters. Having robust and consistent data is key to support the integration of nature-related considerations in decision making and the move of financial flows toward nature-positive impacts.

EQUITY, DIVERSITY AND INCLUSION

The COVID-19 pandemic – during which health and economic outcomes were strongly correlated with gender, race and financial wellbeing – coupled with growing response from society for example around the Black Lives Matter movement, have focused much greater attention on the need to support social and human capital. The reasons for this are not just moral ones.[23] Companies that invest in their employees see returns in lower turnover rates and improved performance. More diversity is associated with greater organizational resilience and effectiveness.[24] Showing commitment to suppliers and communities builds social capital and contributes positively to companies' reputations.

18 Dasgupta P. (2021), 'The economics of biodiversity: The Dasgupta Review: Headline messages', HM Treasury. Accessed: 10 May 2021.
19 Diaz S. et al. (2019), 'Summary for policymakers of the global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services', IPBES. Accessed: 6 April 2021.
20 World Economic Forum and PwC (2020), 'Nature risk rising: Why the crisis engulfing nature matters for business and the economy'. Accessed: 6 April 2021.
21 WWF (2020), 'Global futures: Assessing the global economic impacts of environmental change to support policy-making'. Accessed: 29 August 2020.
22 Daszak P. et al. (2020) 'Workshop report on biodiversity and pandemics of the Intergovernmental Platform on Biodiversity and Ecosystem Services', IPBES. Accessed: 6 April 2021.
23 Lydenberg S. et al. (2018), 'Why and how investors can respond to income inequality', The Investment Integration Project and PRI. Accessed: 6 April 2021.
24 Eswaran V. (2019), 'The business case for diversity in the workplace is now overwhelming', World Economic Forum. Accessed: 9 July 2021.

THE SUSTAINABLE DEVELOPMENT GOALS

The UN Sustainable Development Goals (SDGs), launched in 2015, are a globally endorsed commitment to solving the world's most pressing challenges, such as climate change, hunger and access to healthcare and education. The 17 goals and 169 targets give organizations, industries and governments a roadmap to produce the system-wide changes needed to move towards a resource-efficient, equitable world.

Companies and investors are increasingly considering how their own business conduct and investment decisions may contribute (positively or negatively) to the achievement of the SDGs. Some have gone as far as to map their own operations against specific SDGs and to make SDG-linked commitments.

THE EMERGENCE OF SUSTAINABLE FINANCE

The first green bond was issued in 2007 but the market really started to gain traction in 2014, with the launch of the first widely accepted voluntary standards, the Green Bond Principles.[25] Since then, the market has grown dramatically in terms of both the scope of products, with social and sustainability bonds as well as green bonds, and the scale of issuance, which surpassed US$1.7 trillion as at the end of 2020.[26] Sustainability bonds accounted for nearly 6% of total fixed income issuances in 2020.[27] Companies are using these markets to raise funds for a variety of sustainability initiatives, which brings them into contact with new types of investors.

For further reading on sustainable finance:

- 'Implementing a sustainable finance framework: top tips for treasury teams', A4S, 2020
- 'Essential Guide to Debt Finance', A4S, 2019

FURTHER READING

For more information on the kinds of risks and opportunities impacting businesses and how to respond, see:

- 'Briefing for finance: climate action', A4S, 2020
- 'Briefing for finance: biodiversity', A4S, 2020
- 'Building a better future', A4S, 2020

25 Climate Bonds Initiative (2014), 'Green Bond Principles & Climate Bonds Standard'. Accessed 13 April 2021.
26 Harrison C. and Muething L. (2021), 'Sustainable Debt: Global State of the Market 2020', Climate Bonds Initiative. Accessed: 24 April 2021.
27 A4S calculation based on data from the Climate Bonds Initiative report (see note 22) and ICMA data available here.

A4S
CFO LEADERSHIP NETWORK

CASE STUDY

BURBERRY: ISSUING OUR FIRST SUSTAINABILITY BOND

The rapid growth of the sustainable bond market has provided Burberry with new financing options and new ways to engage investors. By linking our sustainability strategy to our funding requirements, we enlisted the support of investors in delivering our sustainability goals while further embedding ESG principles into our business.

On 21st September 2020, we issued our inaugural five-year £300 million sustainability bond, the first by a luxury fashion company. The bond is unusual in including operational expenditure as well as capital expenditure in its qualifying use of proceeds.

As well as taking the steps associated with issuing a conventional bond, we also had to prepare a **Sustainability Bond Framework** and get a second party opinion on the eligible use of proceeds. We appointed Sustainalytics as our provider and, in consultation with them, we agreed the following uses of proceeds:

- Green buildings
- Environmentally sustainable management of living natural resources and land
- Pollution prevention and control, including waste prevention, waste reduction and waste recycling

The bond was well received by the market: it was 7.9 times oversubscribed and, as a result, tightly priced at a coupon rate of 1.125%.

For further reading, see '**Enhancing Investor Engagement case study – Burberry**'.

Eligible Sustainable Project Categories	Eligibility Criteria	Example Sustainability Projects	Example Metrics	Relevant SDGs
Green Buildings	Expenditures relating to properties certified to LEED 'Platinum' or 'Gold' or BREEAM 'Outstanding' or 'Excellent' level.	Procurement and fit-out of energy efficient properties eg: Shanghai IAPM and Beijing Seasons Place stores achieved LEED Gold certification Energy efficient refurbishment of stores	Energy consumption savings (in MWh) % Energy consumption reductions Greenhouse gas emissions avoided, tCO_2e	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Environmentally sustainable management of living natural resources and land use	Expenditures related to procurement of BCI-certified material	BCI[14] Cotton Sourcing products supporting more sustainably-grown cotton through the Better Cotton Initiative	% of certified materials sourced[15]	15 LIFE ON LAND
pollution prevention and control (including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/ emission-efficient waste to energy);	Expenditures relating to the proportion of recycled material in packaging materials	Sourcing of reusable, recyclable and Forest Stewardship Council (FSC) certified packaging materials Sourcing of 100% recycled polyester for brand and care labels		

Source: Burberry, '**Sustainability Bond Framework**', August 2020

Extract references:
14 BCI – Better Cotton Initiative: www.bettercotton.org
15 Note: this is not strictly to be considered as an impact metric, rather a proxy measurement for a combination of anticipated positive environmental and social impacts.

BURBERRY
LONDON ENGLAND

HOW TO CONVINCE INVESTORS THAT SUSTAINABILITY IS BEING INTEGRATED INTO YOUR BUSINESS?

BEING A SUSTAINABLE BUSINESS

If you do not believe that environmental and social issues are relevant to the commercial success of your business, why would your investors? A key message that we heard through interviews with investors is that they want companies to be able to explain how the environmental and social factors they focus on are relevant to the company's ability to generate value over time.

Before starting to communicate with investors about sustainability, you need to consider how integrated the different elements of sustainability really are into how your business is run. The investor relations team will not be able to address all of these elements but can work with the CFO and others in the company to understand what action the company is taking and to ensure that investors are engaged in that process.

The A4S Essential Guide Series provides a useful entry point for understanding the practical issues of integrating sustainability into your business processes and decisions, while the associated maturity maps allow you to assess where you are on the journey.

Note: you do not need to have extensive sustainability plans and processes in place before you start talking to investors. In fact, being clear and focused, starting with a few key steps, is much more important than being expansive but not moving forward at all.

INTEGRATING SUSTAINABILITY INTO HOW THE BUSINESS IS RUN

There are a number of indicators that provide a clear signal about how serious you are – and are clear giveaways if sustainability is not a core part of how you run the business.

Here are some key questions to ask yourself when considering how integrated sustainability is into your business:

BUILD A SUSTAINABLE BUSINESS MODEL

How sustainable is your business model?

INTEGRATE INTO STRATEGY

Is sustainability integrated into your strategy?

EMBED IN RISK MANAGEMENT

Is sustainability integrated into your risk management?

INTEGRATE INTO GOVERNANCE

Do your governance arrangements reflect your sustainability commitments?

LINK TO REMUNERATION

Is directors' remuneration linked to achieving sustainability outcomes?

MEASURE AND REPORT PERFORMANCE AGAINST TARGETS

Do you measure and report progress against your sustainability targets on a regular basis?

For more detail about these questions and why they matter, read on.

BUILD A SUSTAINABLE BUSINESS MODEL

How sustainable is your company's business model and where can it have a positive impact on society? Now, more than ever, you need good answers to these questions.[28]

A sustainable business is one that delivers financial returns in the short and long term, in a way that generates positive value for society while operating within environmental constraints.

Through their operations, all companies both have an impact and are dependent on natural, social, human and financial capital. At a minimum, you should understand how these impacts and dependencies underpin your business model, now and into the future. Focusing on sustainability also presents opportunities. Being clear on your company's purpose can help you understand which ESG topics to focus on. It can also help you shape your business model so that you move beyond only managing risks and negative impacts, towards identifying transformative opportunities for a meaningful long-term value creation.

> ***Sustainability has to have a seat at the table. It has to be a core part of who you are and what you do.***
>
> SIMON MAYS-SMITH, VICE PRESIDENT OF INVESTOR RELATIONS, AUTODESK

WHY DOES IT MATTER?

- Clarifies the range of resources and relationships on which your business relies.
- Helps you to understand the link between different types of capital and your business model, enabling you to draw out which environmental and social issues are relevant, and how.
- Addresses the interests of investors, who are interested in issues that will impact the sustainability and profitability of your business model.
- Helps you to avoid the potentially material costs of inaction – from locking in future risks to intangible costs around reputational risk and loss of brand value.

AREAS TO THINK ABOUT

- Whether there are environmental or social trends, for example natural resource constraints, price increases or supply insecurity, that will impact your business model, the value you create and how you create it – investors can provide insights into the types of issues they believe are likely to impact long-term sustainable value creation.
- What outcomes and impacts arise from your business model and how these might influence your business, for example in terms of licence to operate.
- Disruptive risks that could arise from environmental and social issues, such as the COVID-19 pandemic that moved issues related to employee welfare up the corporate agenda.
- What your corporate purpose and sustainability objectives mean for the way you approach your assorted stakeholders, including investors but also employees, customers, communities and suppliers.
- The opportunities that environmental and social factors present to transform existing business offerings for your entire business.

28 Gast A. et al. (2020), 'Purpose: shifting from why to how', McKinsey Quarterly, April 2020. Accessed: 10 May 2021.

CASE STUDY

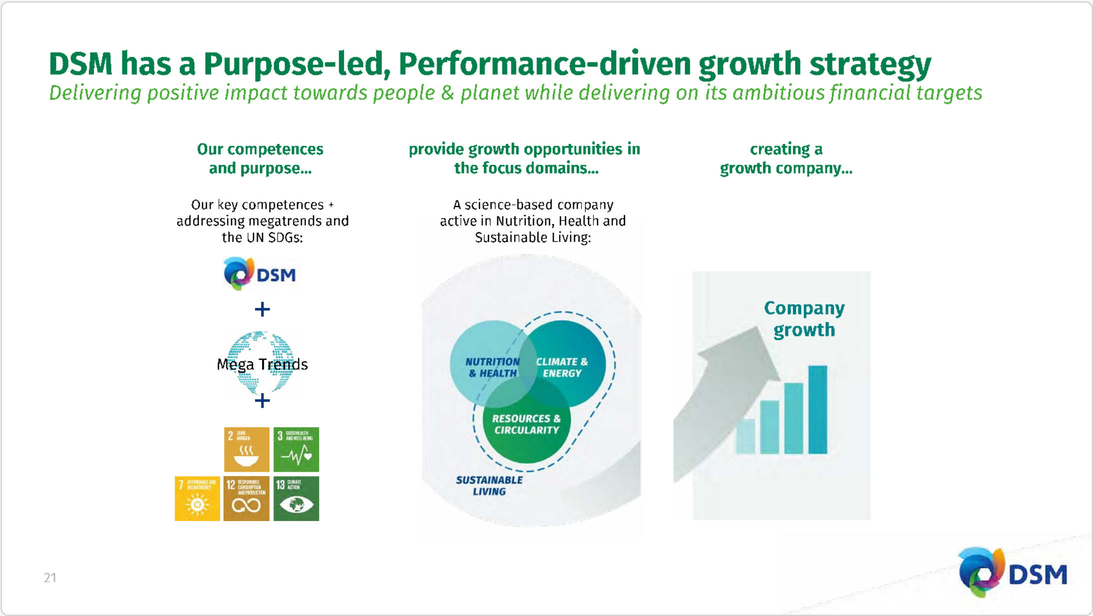
ROYAL DSM: THE VALUE OF DOING BUSINESS SUSTAINABLY

Investors are looking for companies that can provide a combination of strong financial performance, low operational ESG risk and a clear positive contribution to society. Our work to integrate sustainability into our organization positions us well for the future.

We have a history of reinventing our business to adapt to a changing world. This has seen us move away from bulk industry and petrochemicals to becoming a purpose-led company in nutrition, health and sustainable living. DSM has for many years distinguished itself by embracing sustainability and providing value for all stakeholders simultaneously across the dimensions of people, planet and profit.

Focusing on sustainability gives us numerous opportunities for profitable growth, including providing healthier nutrition for humans and animals (food and feed); ensuring enough high-quality food, including proteins for a fast-growing global population, but within planetary boundaries. For instance, we have developed livestock feed additives that reduce emissions (GHG, nitrogen, phosphorous) from farming. We define our strategy as ‘purpose led, performance driven’.

This is a deliberate framing – within DSM sustainability is a core value of every employee. However we are not an NGO, we are a commercial enterprise operating in a competitive environment where we are committed to making good returns for our shareholders by making our work more sustainable. Sustainability is our growth opportunity.



Source: DSM, ‘Presentation to investors: H1 2021 results’, August 2021

CASE STUDY

SSE: A STRATEGY FOR SUSTAINABLE BUSINESS, NOT A STRATEGY FOR SUSTAINABILITY

SSE's purpose is to provide energy needed today while building a better world of energy for tomorrow. Our vision is to be a leading energy company in a net zero world.

This purpose and vision link through to our strategy, which is to create value for shareholders and society in a sustainable way by developing, building, operating and investing in the electricity infrastructrure and buisnesses needed in the transition to net zero.

The UN's 17 SDGs are the global blueprint for a sustainable future. We believe that every organization – whether government, business or civil society – has a role to play in achieving them. That is why we use the SDGs as the framework for SSE to meet business, environmental and social objectives. We reviewed the 17 headline goals as well as the 169 individual targets under the goals and determined which were material to us both in terms of those that were relevant to our business and operations and where we could have an impact too. This allowed us to identify the most material SDGs for SSE, creating a clear link between our business strategy and our purpose.

In March 2019, we set four fundamental business goals for 2030 aligned to the most material SDGs for the company. We have embedded these goals into our business decision making and linked a portion of our executive remuneration to the achievement of our 2030 goals.

Cut carbon intensity by 60%

Reduce the carbon intensity of electricity generated by 60% by 2030,compared to 2018 levels, to around 120gCO_2/kWh.

Treble renewable energy output

Develop and build by 2030 more renewable energy to contribute renewable output of 30TWh a year.

Help accommodate 10m electric vehicles

Build electricity network flexibility and infrastructure that helps accommodate 10 million electric vehicles in GB by 2030.

Champion Fair Tax and a real Living Wage

Be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.

Source: SSE, 'Our 2030 goals'

Build a sustainable business model
Integrate into strategy
Embed in risk management
Integrate into governance
Link to remuneration
Measure and report

INTEGRATE INTO STRATEGY

To the extent that your environmental and social commitments are central to long-term value creation, they should form part of your broader corporate strategy. Rather than having separate business and sustainability strategies, develop a single, integrated strategy, with clear performance targets.

WHY DOES IT MATTER?

- Shows understanding of the relevance of sustainability to achieving corporate objectives.
- Embeds social and environmental factors into your core business activities.
- Delivers value for and deepens connections with key stakeholders (eg investors, customers and employees).
- Highlights links between commercial and environmental and social outcomes.

AREAS TO THINK ABOUT

- How to drive business growth in the long term, thinking both in terms of risk and opportunity.
- Reducing costs and making supply chains robust and adaptable.
- Ways to keep track of emergent issues caused by changing stakeholder expectations, policy shifts, new technologies and enhanced scientific understanding of environmental impacts.

“*We believe that we will deliver better financial performance by delivering on our sustainable business strategy.*”

CLIO ADAM, INVESTOR RELATIONS DIRECTOR, UNILEVER.

CASE STUDY

UNILEVER: SUSTAINABILITY AS A CENTRAL PART OF STRATEGY

Investors are interested in understanding how we think about value creation, how we identify opportunities and how we manage our risks. For us, sustainability is integral to our business growth and performance over the short, medium and long term.

In 2020, we announced the Unilever Compass, our new integrated strategy. It builds on the lessons learned from Unilever's Sustainable Living Plan (then 10 years old and coming to an end) and extensive engagement with employees and external stakeholders. The strategy retains our purpose, which is to make sustainable living commonplace, but sets a new vision, namely, to be the global leader in sustainable business.

The Unilever Compass is made up of five strategic priorities, one of which is to "position our brands as a force for good, powered by purpose and innovation". This is underpinned by a series of multiyear metrics and targets that allow investors and other stakeholders to understand what this priority means and how we plan to measure progress. This approach clearly articulates the centrality of sustainability to our strategy.

For further reading, see 'Enhancing Investor Engagement case study – Unilever'.

Source: Unilever, 'The Unilever Compass', May 2020

Build a sustainable business model
Integrate into strategy
Embed in risk management
Integrate into governance
Link to remuneration
Measure and report

A4S CFO LEADERSHIP NETWORK

Essential Guide to
ENHANCING INVESTOR ENGAGEMENT

EMBED IN RISK MANAGEMENT

One of the reasons that environmental and social topics such as climate change have garnered so much attention from investors and securities market regulators is their recognition that these types of issues can pose very real risks to company performance over different time horizons. Sustainable companies will have effective processes in place for assessing and managing these risks.

WHY DOES IT MATTER?

- Demonstrates understanding of how environmental and social factors can impact value creation.
- Ensures effective consideration of environmental and social risks.
- Provides reassurance to investors and other stakeholders that relevant issues are being identified and managed.
- Offers the possibility for taking opportunities that would not be identified otherwise.

AREAS TO THINK ABOUT

- Sources of risk, which potentially can derive from both company impacts and dependencies (eg natural resource use) as well as more systemic sources (eg climate change).
- How existing risk processes and governance structures cater for, or need to be amended to cater for, environmental and social risks.

CASE STUDY

MANULIFE: CLIMATE CHANGE RISK MANAGEMENT

Manulife is a global financial services group that provides financial advice, insurance, wealth and asset management solutions for individuals, groups, and institutions.

Climate change is one of the risk areas that we've been working on integrating into our broader enterprise risk management processes. As a long-term oriented underwriter and investor, long-term climate-related risks and opportunities, including changes in the physical environment, and policy and technological changes associated with the transition to a lower carbon economy, are all relevant. We view climate-related risk as a transverse risk, since the broad range of actual or potential threats can impact any of our key risk areas (eg market, credit, product, operational, legal, and reputational) through the manifestation of physical and transition climate-related impacts. The identification and assessment of climate-related risks is communicated through an Environmental Risk Policy updated in 2020, which sets out a framework for the management of environmental risks within our business activities.

In 2018, our CFO created the role of Director of Sustainability Accounting within the finance function to help drive the integration of environmental and social risk management into our risk processes and our decision making. We realized that this was not something that could be done by the finance team alone but required the support of senior executives throughout the firm. This meant getting the right governance structures in place. Initially, our meetings with the Chief Risk Officer, the Chief Information Officer and other executives on sustainability risk topics were quite informal, which then evolved into a cross-functional executive level sustainability committee that meets regularly and reports into our board.

We use TCFD to frame our thinking and approach to climate change. Following the guidance of TCFD, we have conducted scenario analysis to evaluate our risk exposure under various climate scenarios. In 2020, we performed a series of climate change stress tests to gain insight into the impact of climate-related risks on our investment portfolios and to inform capital management.

We release results of our performance on climate risk metrics as part of our annual financial reporting per TCFD recommendations. Our annual sustainability disclosures follow the Global Reporting Initiative (GRI) and Sustainability Accounting Oversight Board (SASB) standards. We also communicate our performance in quarterly investor relations material, during investor days, and in annual shareholder engagement when investors have an opportunity to speak directly with the board without the management present.

We are committed to the net zero target for the investment portfolio, and to the operational (scope one and two) carbon emission reduction target of 35% by 2035. With our established risk governance and management systems, we are now underway towards achieving our ambitions.

Manulife

Build a sustainable business model
Integrate into strategy
Embed in risk management
Integrate into governance
Link to remuneration
Measure and report

CASE STUDY

INTEL: INTEGRATING SUSTAINABILITY ACROSS OUR SUPPLY CHAIN

For Intel, we see ESG issues as integral to our purpose and an important driver creating long-term value for our investors and other stakeholders.

During 2020, our integrated outreach team, led by our investor relations group, corporate responsibility office, human resources, and corporate secretary's office met with investors to discuss a wide range of issues, including ESG topics. In May 2020, we set out our new corporate responsibility 2030 RISE strategy and goals that aim to accelerate the integration of responsible, inclusive, and sustainable practices across our operations and supply chain. The strategy and goals are rooted in our corporate purpose and aligned with our business strategy.

Effective management of our supply chain is integral to our business success and is an area of interest to our investors. Our strategic focus is therefore on ensuring that we have a resilient, diverse, sustainable and responsible supply chain. This helps reduce risk, improves product quality and improves overall performance and value creation for Intel, our suppliers and our customers. To drive sustainable practices throughout our supply chain, we have robust programmes to set expectations for, educate and engage suppliers that support our global manufacturing operations.

Over the past decade, we have directly engaged with our suppliers to verify compliance and build capacity to address risks of forced and bonded labour and other human rights issues. We set clear expectations of our suppliers, including that they comply with the Responsible Business Alliance Code of Conduct. We conduct regular assessments and audits to gauge supplier performance and identify where we need to take action to address problems.

In addition to supplier audits and compliance activities, we proactively invest in supplier capability building programmes and drive industry-wide initiatives.

Environmental sustainability: we actively collaborate with other companies and lead industry initiatives on key issues such as improving transparency on climate and water impacts in the global electronics supply chain and leverage programs like CDP Supply Chain. Our 2030 technology industry initiative around sustainable chemistry aims to enable greener chemical strategies across the life cycle of the technology value chain by implementing an innovative chemical footprint methodology.

Combating forced and bonded labour: we set expectations with our suppliers that workers should not have to pay for their employment or be subjected to any other conditions of forced labour. As a result, we have facilitated the return of over US$23 million in fees to suppliers' workers since 2014. As part of our 2030 goals, we will significantly expand the number of suppliers covered by our engagement activities to deepen accountability for human rights. During 2020, our supply chain responsibility team completed initial risk profiling of 100% of our tier 1 contracted suppliers and developed an enhanced process and roadmap for completing more indepth risk assessments. The team also completed 50 assessments in 2020.

In the late 2000s, we began work to source tantalum, tin, tungsten and gold responsibly from the Democratic Republic of Congo, and in 2017 we expanded our efforts to address cobalt in our supply chain. We are now expanding our efforts beyond conflict minerals* to cover all minerals used in semiconductor manufacturing globally and applying the learnings to lead our industry in creating new sourcing standards.

* Conflict minerals, as defined by the US Securities and Exchange Commission, is a broad term that means tin, tantalum, tungsten, and gold (3TG), mined in the Democratic Republic of the Congo or adjoining countries.

CASE STUDY

INTEL: INTEGRATING SUSTAINABILITY ACROSS OUR SUPPLY CHAIN *continued*

Supplier diversity and inclusion: we have also extended our corporate commitment to diversity and inclusion to our suppliers because we believe a diverse supply chain supports greater innovation and value for our business. We achieved our 2020 goal to reach US$1 billion in annual spending with diverse-owned suppliers and our new 2030 goal is to double this figure over the next decade.

Our approach to engaging openly and year-round with our investors regarding ESG issues drives increased corporate accountability, improves decision making, and ultimately creates long-term value. The feedback we receive through our investor outreach activities is communicated to Intel's Board of Directors and relevant committees throughout the year.

In response to investor feedback, we further integrated ESG information into our Annual Report on Form 10-K, Proxy Statement, and investor relations website; expanded disclosure on culture, human capital management, and climate risk; and further aligned our disclosure with external reporting frameworks such as the SASB, TCFD and other reporting frameworks.

intel.

Total Audits Conducted

Type of Audit	2016	2017	2018	2019	2020
RBA VAP Audits	62	66	108	112	88
Intel RBA-Based Target Audits	61	52	54	42	38
Intel Quality Audits with Sustainability Element	34	52	59	53	–
Total Audits Conducted[3]	**157**	**170**	**221**	**207**	**126**

Applying our risk-based approach, we continue to use the RBA process as the industry standard for our validated audits for manufacturing suppliers. In addition, we apply the risk-based criteria to complete targeted assessments of our non-manufacturing suppliers. Our sustainability criteria have also been embedded into our supplier quality assessment process to further extend our reach into the supply chain. For priority and major findings by category and sub-category, visit the Report Builder. In certain circumstances, the same facility may be audited multiple times in a calendar year. We treat each individual audit of a single facility as a unique audit in the above table. Despite challenges due to COVID-19, in 2020, over 126 audits were conducted across 70 suppliers, although we removed sustainability elements within the Intel Quality Audits in 2020. Audits that were planned in 2020 but not executed due to COVID-19 restrictions and still deemed necessary are included in our 2021 plan. Cumulatively, 596 supplier sites had received audits by the end of 2020.

[3] Previous years' figures are updated to reflect the most current information as new audit data becomes available.

Source: Intel, '2020–21 corporate responsibility report', 2021

Source: Intel, '2019 Intel Investor Meeting', 2019

INTEGRATE INTO GOVERNANCE

If you are serious about sustainability, you should have governance structures in place that reflect this. This means board oversight and management responsibility for delivery.

WHY DOES IT MATTER?

- Demonstrates commitment at the highest levels for achieving environmental and social objectives.
- Sets a clear tone from the top and provides direction.
- Clarifies roles and responsibilities, which is an important element of success.

AREAS TO THINK ABOUT

- The executive committee's oversight of, and responsibility for, the company's performance on key environmental and social topics.
- How board and senior management advocate for the relevance of environmental and social factors to the business.
- The extent to which the board understands how corporate purpose and ESG principles are considered and integrated into strategy and enterprise risk management.
- The level of integration at board level – for example, eventually integrating sustainability considerations into all board committees (eg audit, nomination, remuneration), or if there is a separate sustainability committee, linking it to the main board.
- The integration of sustainability into roles and responsibilities throughout the organization, with environmental and/or social performance KPIs where relevant.
- How integrated management information and internal reporting is used by the board and the executive committee to measure progress.
- Whether the board composition reflects 'sustainability competence', eg at least one board member has a deep understanding of relevant environmental and social factors and all members are able to speak about sustainability strategy.
- Whether the board composition enables understanding of (or reflects) multiple stakeholder perspectives.
- The extent to which the board is able to respond to investor queries on ESG topics.

FURTHER READING

- 'Engaging the Board and Executive Management', A4S, 2021
- 'Finance culture', A4S, 2018
- 'Strategic planning, budgeting and forecasting', A4S, 2018
- 'Modernizing governance: key recommendations for boards to ensure business resilience', World Business Council on Sustainable Development, 2020

CASE STUDY

MANULIFE: ENGAGING THE BOARD AND EXECUTIVES

Over the past few years, through the annual activities of our Shareholder Outreach Program, we have observed an increase in shareholders' interest in how the board oversees Manulife's ESG performance. Investors also asked for the reporting of this performance through disclosure frameworks, such as TCFD and SASB.

Manulife's CFO played a pivotal role in raising awareness of the sustainability agenda, announcing sustainability related disclosures and laying the foundations for a sustainability governance structure.

In 2019, Manulife formed the Executive Sustainability Council, which comprises ten members including our first Chief Sustainability Officer, who was hired in 2020. The council's mandate is to anticipate and manage relevant environmental and social risks and opportunities. It reports to the board's Corporate Governance and Nominating Committee, which oversees our sustainability framework. The council is supported by the two internal cross-functional teams chaired by the Chief Sustainability Officer – the Sustainability Centre of Expertise and the Climate Taskforce – tasked with integrating sustainability into our business.

The council and the cross-functional teams work continuously to evolve our sustainability strategy and performance. They provide quarterly updates to the board to track Manulife's performance against its sustainability goals. After getting the right teams in place, our CFO, along with a group of peer executives on our Executive Sustainability Council, now has oversight over the execution of our sustainability strategy.

CASE STUDY

MANUFLIFE: ENGAGING THE BOARD AND EXECUTIVES *continued*

Board of Directors

- Risk Committee
- Corporate Governance and Nominating Committee
- Management Resources and Compensation Committee
- Audit Committee

Executive Sustainability Council: Oversees ESG and sustainability strategy and disclosures — Meets monthly

- Chief Financial Officer
- Chief Human Resources Officer
- Chief Investment Officer
- Chief Marketing Officer – Chair
- Chief Operations Officer
- Chief Risk Officer
- Chief Sustainability Officer
- General Counsel
- President and CEO
- President and CEO, Global Wealth and Asset Management

Sustainability Centre of Expertise: Discusses and aligns on sustainability-related matters — Meets monthly

- Corporate Sustainability
- Group Finance
- Group Risk Management
- General Account
- Manulife Investment Management (MIM) Public Markets
- MIM Private Markets – Real Estate
- MIM Private Markets – Infrastructure and Private Equity
- MIM Private Markets – Agriculture and Timber

In 2019, we established the Climate Change Taskforce to execute on our Climate Action Plan.

Climate Change Taskforce: Develops and drives Climate Action Plan — Meets weekly

- Corporate Sustainability
- Group Finance
- Group Risk Management
- General Account
- MIM Public Markets
- MIM Private Markets

Source: Manulife, '2020 Sustainability Report and Public Accountability Statement', 2021

A4S CFO LEADERSHIP NETWORK

Essential Guide to **ENHANCING INVESTOR ENGAGEMENT**

CASE STUDY

EQUINIX: BOARD AND EXECUTIVE OVERSIGHT OF SUSTAINABILITY

The governance committee of Equinix's board of directors has oversight of our sustainability efforts, including accountability for risks and opportunities. At the executive level, a sustainability executive steering committee is responsible for:

- Overseeing and reviewing the corporate sustainability and ESG strategy and policy
- Monitoring and tracking Equinix's progress
- Supporting the communications of sustainability efforts externally

The steering committee includes the Executive Chairman, CEO, CFO, Chief Human Resources Officer/Chief Legal Officer, and EVP, Global Operations.

Day to day the programme is led by a global programme director in our sustainability programme office (SPO), which sits in the finance team and reports into our Vice President of Investor Relations and Sustainability, and executed by a working team that consists of about 25 global and regional leads.

The SPO is responsible for coordinating cross-functional collaboration and alignment across the programme, including defining the strategy, advising on implementation, measuring and reporting on progress and initiaitves and leading stakeholder engagement. The working team meets throughout the year and more frequently during key reporting timeframes. The steering committee meets two to four times a year. The programme's director, with the support of the working team, has access to the CEO, CFO and board of directors quarterly as needed.

Extract from Equinix website, May 2021: Sustainability governance

EQUINIX

Build a sustainable business model
Integrate into strategy
Embed in risk management
Integrate into governance
Link to remuneration
Measure and report

CASE STUDY

BRITISH LAND: BOARD AND EXECUTIVE OVERSIGHT OF SUSTAINABILITY

At British Land, our CFO (a member of both the board and the executive committee) champions our sustainability strategy and has played a key role in demonstrating the business case for sustainability. Our board and executive committee members have been engaged and supportive from an early stage because of the strong business case to accelerate progress in achieving our environmental and social priorities.

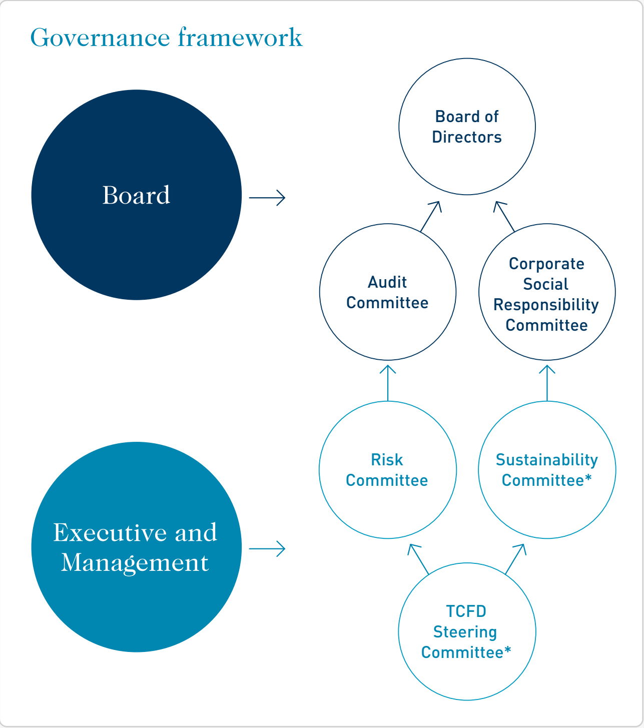
In addition to integrating sustainability into our existing management and board committees, we felt that the creation of a dedicated committee at each level was important to help us manage the risks and opportunities associated with ESG matters effectively and provide a forum where representatives from across the business could come together to address them.

Our sustainability committee, chaired by the CFO, is responsible for delivering our sustainability programme. Management staff from across the business – including finance, strategy, asset management, property management, leasing and development – are represented on this committee. It operates as a working group, reviewing and refining our sustainability strategy, and reports to the board-level Corporate Social Responsibility (CSR) committee.

The CSR committee meets three times a year. It oversees the delivery of our sustainability strategy, including the delivery of the pathway to net zero and the management of climate-related risks. The committee is made up of non-executive directors only, but senior management team members, including the CFO, are invited to attend each meeting.

We are committed to achieving full disclosure against the TCFD recommendations by 2021/22 and established a TCFD steering committee in 2019 to lead this. This committee, sponsored by the CFO, includes representatives from across the business and reports to both the risk and sustainability committees. Any resulting disclosure requires approval by the audit committee, which also takes the responsibility for overseeing the effectiveness of risk management, including climate risk.

The board has ultimate oversight of risk management and is updated on climate and other material ESG risks at least annually.



Source: British Land, 'Places people prefer: Annual report and accounts 2021', May 2021

Extract references: *Members include representatives from the business: Asset management, Development, Finance, Investment, Procurement, Property management, Risk management, Strategy and Sustainability.

British Land

LINK TO REMUNERATION

Tying variable compensation (such as bonuses or share schemes) to the achievement of strategic objectives is standard practice at many companies and expected by investors. To the extent that achieving certain environmental and social targets is integral to your strategy, you should modify executive remuneration schemes to include specific sustainability-related targets. These should be appropriate, quantified and assurable, wherever possible.

WHY DOES IT MATTER?

- Provides the right incentives for long-term, sustainable action.
- Sends a clear signal that the business is serious about the long-term agenda.

AREAS TO THINK ABOUT

- The mix of long-term and short-term targets related to the creation and successful delivery of sustainable business models, including how setting short-term targets can help you stay on track in achieving your longer-term goals.
- Finding robust, transparent long-term measures and engaging investors early to gain buy in on the rationale for and benefits of building sustainability into executive remuneration.

CASE STUDY

BURBERRY: INTEGRATING SUSTAINABILITY INTO REMUNERATION POLICIES

Investors want to know that the ESG topics that a company is focused on are relevant for long-term value creation and that the company's commitments around those topics are credible. One of the ways that they assess this is by looking at whether a meaningful percentage of management's remuneration is tied to sustainability goals.

In 2017, as part of our Creating Tomorrow's Heritage strategy, we introduced ambitious sustainability targets to 2022 under three core areas: communities, product and company.

We have already made important progress in line with these targets. But to ensure that responsibility stays closely aligned with our business goals, Burberry's remuneration committee introduced a new restricted share plan in 2020. This plan included "progress on fulfilling longer-term sustainability objectives" as one of the factors that would determine the pay out of executive directors' share awards.

Performance against this objective will be evaluated at the time of vesting alongside financial performance measures of revenue and return on invested capital, and progress on brand value.

Similarly, our approach for executive annual bonuses for the 2021/22 financial year will be based 75% on adjusted operating profit and 25% on performance against strategic objectives linked to progress against our strategy and our brand, sustainability targets, and diversity, inclusion and leadership goals.

For further reading, see 'Enhancing Investor Engagement case study – Burberry'.

BURBERRY
LONDON ENGLAND

Build a sustainable business model
Integrate into strategy
Embed in risk management
Integrate into governance
Link to remuneration
Measure and report

CASE STUDY

ROYAL DSM: INTEGRATING SUSTAINABILITY TARGETS INTO SHORT- AND LONG-TERM REMUNERATION

Fostering and maintaining an inclusive and diverse work environment is key to helping our employees offer their best, most authentic contribution and therefore is a prerequisite to delivering on our strategic goals.

Talented people help us to achieve our strategic and operational objectives. The goal of our remuneration policy is to attract, motivate and retain such people while meeting the needs of our stakeholders. The policy also aligns with our business targets.

We put financial and sustainability performance targets in place, aiming for a good balance between economic gains, respect for people and concern for the environment. This is in line with the values and business principles in our DSM Code of Business Conduct. By engaging investors in this process, we made sure they were satisfied that our sustainability targets were robust and aligned with our strategy.

Reflecting these priorities, the remuneration package for the managing board balances short-term operational performance with the medium- and long-term objective of creating sustainable value within the company. The supervisory board sets goals and targets for the respective performance year and determines the extent to which these have been achieved. Both short-term and long-term incentives are linked to the achievement of financial objectives and sustainability targets. A bonus scheme linked to these same targets also applies to all staff throughout the company, to incentivize everyone to work towards our sustainability goals.

Our short-term targets are focused on areas that are suitable for annual evaluation such as employee engagement and worker safety. Our long-term targets aim to ensure we remain focused on topics such as the achievement of energy efficiency goals and reductions in GHG emissions.

Royal DSM Integrated Annual Report 2020
Realization of the 2020 STI targets

	in % of base salary	To be achieved in % of target defined: Minimum	Target	Maximum	Performance bracket achieved	Pay-out in % of base salary
Adjusted EBITDA	12.5%	96.0%	100.0%	103.0%	0.0%	0.0%
Adjusted net operating free cash flow	10.0%	87.5%	100.0%	109.0%	200.0%	20.0%
Net sales growth	2.5%	50.0%	100.0%	150.0%	0.0%	0.0%
Brighter Living Solutions	5.0%	92.0%	100.0%	110.0%	100.0%	5.0%
Safety	5.0%	100.0%	100.0%	110.0%	200.0%	10.0%
Employee Engagement	5.0%	94.0%	100.0%	106.0%	125.0%	6.3%
Individual goals	10.0%	0.0%	100.0%	200.0%	200.0%	20.0%

Source: DSM, 'Total remuneration of the managing board 2020' [remuneration report providing an overview of the realization of the 2020 short-term incentive targets]

CASE STUDY

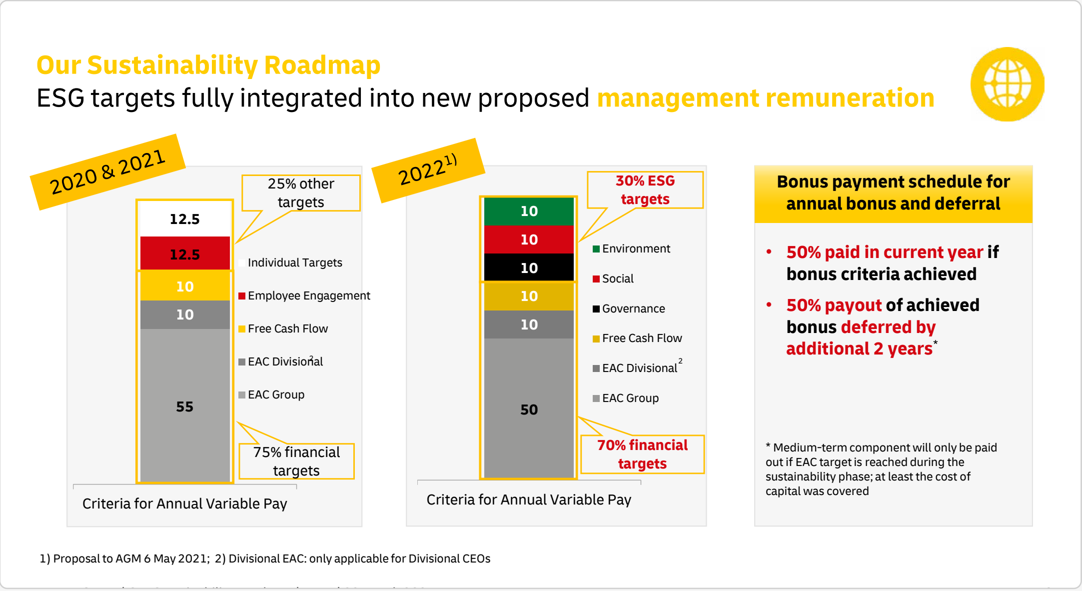
DEUTSCHE POST DHL: GIVING SHAREHOLDERS A VOTE ON NEW REMUNERATION STRUCTURE AND COMMUNICATING TO INVESTORS

In March 2021, our Group CEO, Group CFO and Group HR Director held an investor presentation to introduce our Sustainability Roadmap of the Strategy 2025.

The roadmap includes fully integrating ESG targets into corporate board remuneration from 2022. A proposal was made at the AGM in May 2021 to link 30% of the annual variable pay to specific ESG targets, demonstrating that sustainable business is a top priority for the Group.

The shareholders approved the change with 93.4% majority.

Further reading: '**Integrating ESG into executive compensation plans**', ICGN, 2020



Source: Deutsche Post DHL, '**Our Sustainability Roadmap presentation**', March 2021

Deutsche Post DHL Group

Build a sustainable business model
Integrate into strategy
Embed in risk management
Integrate into governance
Link to remuneration
Measure and report

MEASURE AND REPORT PERFORMANCE AGAINST TARGETS

Meaningful environmental and social commitments need to be underpinned by clear targets and metrics that you can track on an ongoing basis. Focus on developing material KPIs linked to value drivers and integrate these within internal management systems and internal and external reporting.

WHY DOES IT MATTER?

- Drives action and provides the ability to steer.
- Gives a clear signal about your organizational priorities and what management sees as important by focusing on key environmental and social measures with business relevance.
- Provides you with targets and performance measures that can underpin remuneration.

AREAS TO THINK ABOUT

- Processes you can implement that support data quality and integrity.
- How to link sustainability KPIs to strategy, risk and remuneration.
- How to integrate KPIs within scorecards, target setting and performance management.
- Wherever possible and relevant, ensuring targets are science based (eg developing climate targets in line with the guidance of the Science Based Targets initiative). To define social targets, consider broader stakeholder perspectives sourced through structured stakeholder engagement.
- How to set credible, long-term targets supported by near term milestones.
- Making targets SMART (ie Specific, Measurable, Achievable, Relevant and Timely).
- Which metrics can provide a comprehensive view of how value is created.
- How to invest to improve the maturity of non-financial targets and metrics over time.

> ***If you've identified something as a material topic, then we expect to see targets, and measurement against those targets.***
> JOHN TEAHAN, RWC PARTNERS.

CASE STUDY

CLP: DISCLOSING MATERIAL ESG METRICS

Our disclosures focus on the material issues that are driving the business, shaping our strategic direction and posing the greatest risks and opportunities. Based on our assessment, our material topics are:

- Responding to climate change
- Harnessing the power of technology
- Reinforcing cyber resilience and data protection
- Building an agile, inclusive and sustainable workforce

Throughout our Annual Report, we disclose key metrics that demonstrate performance against our material topics. We also provide a five-year consolidated set of financial, environmental and social metrics, mapped back where relevant to the GRI Standards and the listings requirements of the Hong Kong Stock Exchange, where we are listed. We provide a more extensive set of metrics and disclosures in our Sustainability Report that tracks our operational performance to meet other stakeholders' needs.

Further reading: 'The Value Driver Model: A tool for communicating the business value of sustainability', UN Global Compact and UN PRI, 2013

Our view is that we should take the same care to ensure the accuracy of our sustainability metrics as we do our financial figures. This means we not only invest in systems and processes that give us comfort in the validity of our published numbers, but that we constantly review the reported metrics that we get externally assured. Our disclosures indicate which numbers have been assured.

The assurance is done in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) and, in respect of GHG emissions, ISAE 3410. Both of these standards are issued by the International Auditing and Assurance Standards Board. The Sustainability Report also includes an independent assurance report from our assurance provider.

Environmental

Performance Indicators	Units	**2020**	2019	2018	2017	2016	GRI Standard	HKEx ESG Reporting Guide Reference
Greenhouse Gas Emissions								
CLP Group[1]								
Total CO_2e emissions – on an equity basis[2,3]	kt	**62,138**	71,720	N/A	N/A	N/A		A1.2
CO_2e – Scope 1[4]	kt	**45,105**	50,047	N/A	N/A	N/A	305-1	
CO_2e – Scope 2	kt	**244**	250	N/A	N/A	N/A	305-2	
CO_2e – Scope 3	kt	**16,790**	21,424	N/A	N/A	N/A	305-3	
CLP Group's generation and energy storage portfolio[3,4,5,6]								
CO_2 – on an equity basis	kt	**44,987**	N/A	N/A	N/A	N/A	102-48, 305-1, 305-2	A1.2
CO_2 – on an equity plus long-term capacity and energy purchase basis[7]	kt	**48,621**	N/A	N/A	N/A	N/A	102-48, 305-1, 305-2	A1.2
CO_2 – on an operational control basis	kt	**43,808**	50,412	52,052	47,921	46,518	102-48, 305-1, 305-2	A1.2
CO_2e – on an operational control basis	kt	**44,023**	50,676	52,306	48,082	46,681	102-48, 305-1, 305-2	A1.2
Climate Vision 2050[3,4,5,6]								
Performance against targets - on an equity basis /an equity plus long-term capacity and energy purchase basis[7]								
Carbon dioxide emissions intensity of CLP Group's generation and energy storage portfolio	kg CO_2 /kWh	**0.65/ 0.57**	0.70/ 0.62	0.74/ 0.66	0.80/ 0.69	0.82/ 0.72	305-4	A1.2
Renewable energy generation capacity	% (MW)	**12.8 (2,517)/ 13.5 (3,342)**	12.8 (2,469)/ 13.7 (3,294)	12.5 (2,387)/ 12.8 (3,039)	14.2 (2,751)/ 13.1 (3,211)	16.6 (3,090)/ 14.9 (3,551)		
Non-carbon emitting generation capacity	% (MW)	**20.9 (4,110)/ 24.4 (6,017)**	21.1 (4,069)/ 24.9 (5,979)	20.9 (3,987)/ 24.1 (5,724)	22.4 (4,350)/ 23.2 (5,699)	19.2 (3,582)/ 20.7 (4,931)		

Source: CLP, '2020 annual report', March 2021

WHERE TO START?

OVERARCHING PRINCIPLES TO HELP GUIDE YOU

Once you have put the fundamentals in place, you can start to develop the narrative for investors and share it with them.

Based on interviews and advice from the range of market participants who have contributed to our work, we have developed a few simple principles that will help to ensure your efforts are effective.

The basic ideas are the same as those for any communication with investors. While the time horizon can be longer than some companies typically discuss with the markets, and it can be harder to demonstrate the link between investment and return, the same can be said of investment in talent and in building strong brands, so this should not be seen as an entirely new challenge.

Investors themselves are grappling with how to incorporate environmental and social considerations into their investment decision making, so it helps to present your information in a way that is likely to be of interest to investors.

We have developed a set of six overarching principles that can help guide how you can communicate and interact with your investors. These cover both what information you should communicate and how you should communicate it:

For more detail about these questions and why they matter, read on.

BOX 6: HOW INVESTORS APPROACH YOUR SUSTAINABILITY INFORMATION

If investors are not speaking to you about all of the ESG information you publish, it does not necessarily mean they are not considering it. Investors consume a large amount of ESG information from a range of sources, not all of which they will necessarily speak to management about. If there is something about your organization's sustainability approach or performance that investors should know about but you are not sure whether they have considered it, be proactive and reach out.

LINK TO STRATEGY

If you have integrated sustainability into your business, then you need to be able to explain how and why that is good for business and good for investors. Sustainability should be part of the broader business narrative. You can use your integrated approach to focus the conversation on the issues that are fundamental to the business' long-term performance rather than short-term 'noise'.

ACTIONS

- Explain why and how you have incorporated environmental and social factors into your corporate purpose and strategy. Demonstrate how these cascade down into business processes and operations and capital allocation decisions.
- Reinforce the messaging within all relevant presentations and communications. Weave sustainability into all investor communications (such as press releases, press interviews, your company website, investor presentations and interim and annual reports) in an integrated way, linking back to value drivers, strategy and commercial outcomes.
- Develop a compelling business case for your approach to environmental and social matters and explain the expected business benefits.
- Ensure there is strong, consistent and repeated advocacy of your strategy by senior leadership.
- Be able to show the targets and KPIs you track to evaluate your approach.

> ***We still sometimes see a segregation between the sustainability team and the business and financial teams. We want to see sustainability much more thoroughly integrated into business and investment processes.***
>
> DAVID VICKERS, BRUNEL PENSION PARTNERSHIP

Link to strategy
Provide context
Have a long-term focus
Adopt a commercial tone
Communicate targets
Use standards

CASE STUDY

AUTODESK: THINKING IN BUSINESS TERMS ABOUT SUSTAINABILITY

We recently bought a business that helps with hydraulic modelling for water ecosystems to make them more efficient. In explaining this investment to our shareholders, we focused on the economic opportunity it presented, but we also highlighted the strong ESG opportunity.

We explained that the value of this acquisition is linked to its ability to address an environmental need: to use water resources more sustainably. The acquisition allows us to demonstrate how our approach to thinking about environmental challenges can create profitable opportunities.

Source: Autodesk, 'Autodesk announces agreement to acquire Innovyze' [investor presentation], 2021

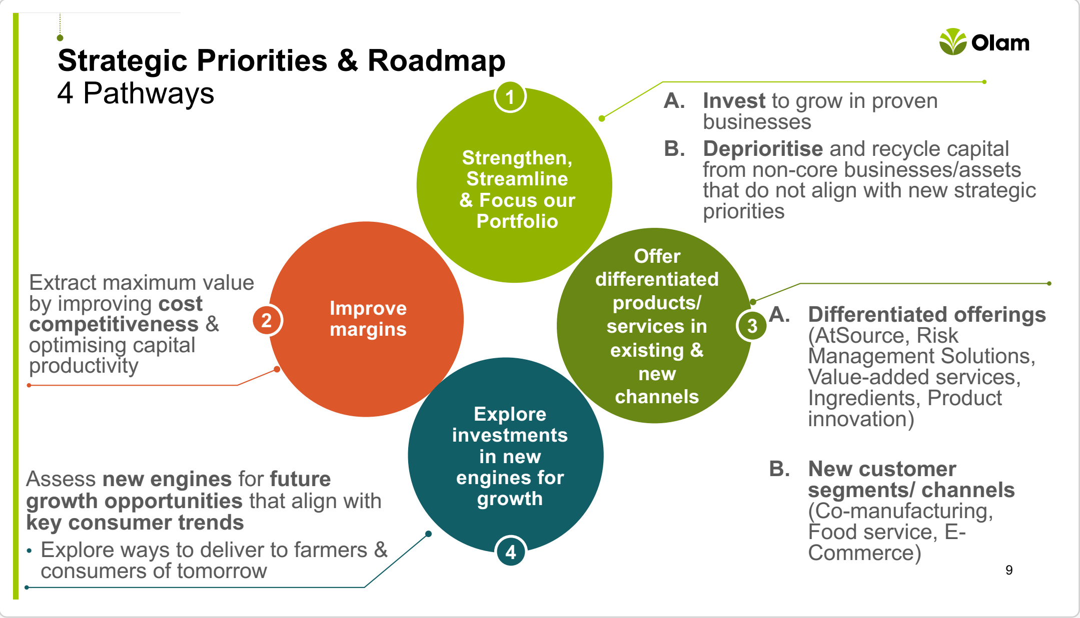
AUTODESK.

CASE STUDY

OLAM: SUSTAINABILITY AS A STRATEGIC DIFFERENTIATOR

Agriculture faces some of the world's biggest developmental, economic and environmental challenges. As a global food and agribusiness, with a supply chain of nearly five million farmers around the world, of which the majority are smallholders in emerging markets, we understand the value of investing to ensure the sustainability and the resilience of our supply chains and the farmers in those supply chains.

As a central pillar of our investor communication plans, we want to demonstrate how our long-term outlook and focus have positioned us well to take advantage of the growing business and consumer emphasis on the responsible production of food and agricultural products. Investing in sustainability throughout our supply chain has long been important to us and is a core component of several aspects of our 2019–2024 strategy.



Source: Olam, 'Strategic plan 2019–2024', January 2019

Olam

CASE STUDY

OLAM: SUSTAINABILITY AS A STRATEGIC DIFFERENTIATOR *continued*

An initiative that we believe is a clear strategic differentiator, and therefore something we incorporate into investor communications, is AtSource, our proprietary sustainability insights platform. This service and digital platform provides our customers with clear traceability and evidence of sustainability throughout the agricultural supply chains. The information available includes end-to-end metrics, action plans and corresponding narratives, with the level of data and insight provided varying according to customer needs. This information can be used by customers to meet their own sustainability requirements and objectives, report on sustainability initiatives and potentially transform supply chains. In addition, AtSource is enabling us to gather information and insights about Olam's footprint, helping us to respond to investor demands on our potential risks and opportunities along the full value chain.

As we introduce new sustainability initiatives (for example, our recently announced Cashew Trail strategy) we are able to integrate our performance against relevant ESG metrics into the AtSource platform. As a result, we can report more effectively to investors on how sustainability is integrated in our business, not just delivering on our purpose and targets, but differentiating us within the sector and offering clear commercial opportunities.

Source: Olam International, 'Investor presentation', August 2021

PROVIDE CONTEXT

Environmental and social factors – whether changing consumer demands, climate change and natural resource constraints or growing concern with diversity and inclusion, to name just a few – have an impact on business and the ability to generate sustainable financial returns. However, different businesses will be affected in different ways, and some issues will be more material to your business than others. The more you can explain why you have focused on specific issues and can quantify their relevance for your business, the more effectively investors can respond.

ACTIONS

- Set out which environmental and social factors are most relevant to your business – and how you reached that conclusion. If you decide that certain factors that are typically regarded as being material for your industry are not material for you, you should be able to explain why.
- Show how relevant environmental and social megatrends will impact future growth, costs and risk profile.
- Demonstrate how these trends are factored into areas such as your overall strategy, business model and risk management.
- Provide analysis of how you are positioned now, and how well you think you are positioned for the future, in relation to the trends identified, using reliable external data where available.

BOX 7: THE TRICKY ISSUE OF MATERIALITY

While the concept of materiality when it comes to financial statements is well understood and generally defined in accounting standards, there is less consensus about how it should be applied to environmental and social issues. This becomes relevant when deciding which environmental and social information to include in the financial statements but also earlier, when determining which issues to prioritize.

In the context of financial reporting, the International Financial Reporting Standards (IFRS) Foundation has published educational resources clarifying that companies must include material climate-related information in their financial statements. The Foundation reiterated that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements (investors) make on the basis of the information presented. It goes on to provide several examples of specific IFRS standards where climate-related information may be material.[29] For sustainability reporting, the IFRS Foundation intends to develop standards on information relevant to investors and enterprise value creation through the establishment of an International Sustainability Standards Board (ISSB).

This focus on enterprise value is in contrast to that being adopted in the EU, which is taking a broader view of materiality in the development of European sustainability reporting standards. In 2021, the EU clarified the double materiality requirement in its Corporate Sustainability Reporting Directive (CSRD), a concept already mentioned in its nonfinancial reporting directive (NFRD) in 2014, stating: "companies should report information necessary to understand how sustainability matters affect them, and information necessary to understand the impact they have on people and the environment".[30]

The EU suggests that new reporting standards should be developed using this perspective as, although investors are typically interested in the information that relates to the company's financial performance, many may be interested in the wider impacts, as are many other stakeholders.

Different existing reporting frameworks and standards (whether voluntary or regulated) also adopt different materiality lenses, with the **Sustainability Accounting Standards Board (SASB) Standards** focused more on impacts that are relevant for value creation and therefore investors and shareholders, and the **GRI Standards** focused on impacts relating to sustainable development and therefore other stakeholders in addition to investors.

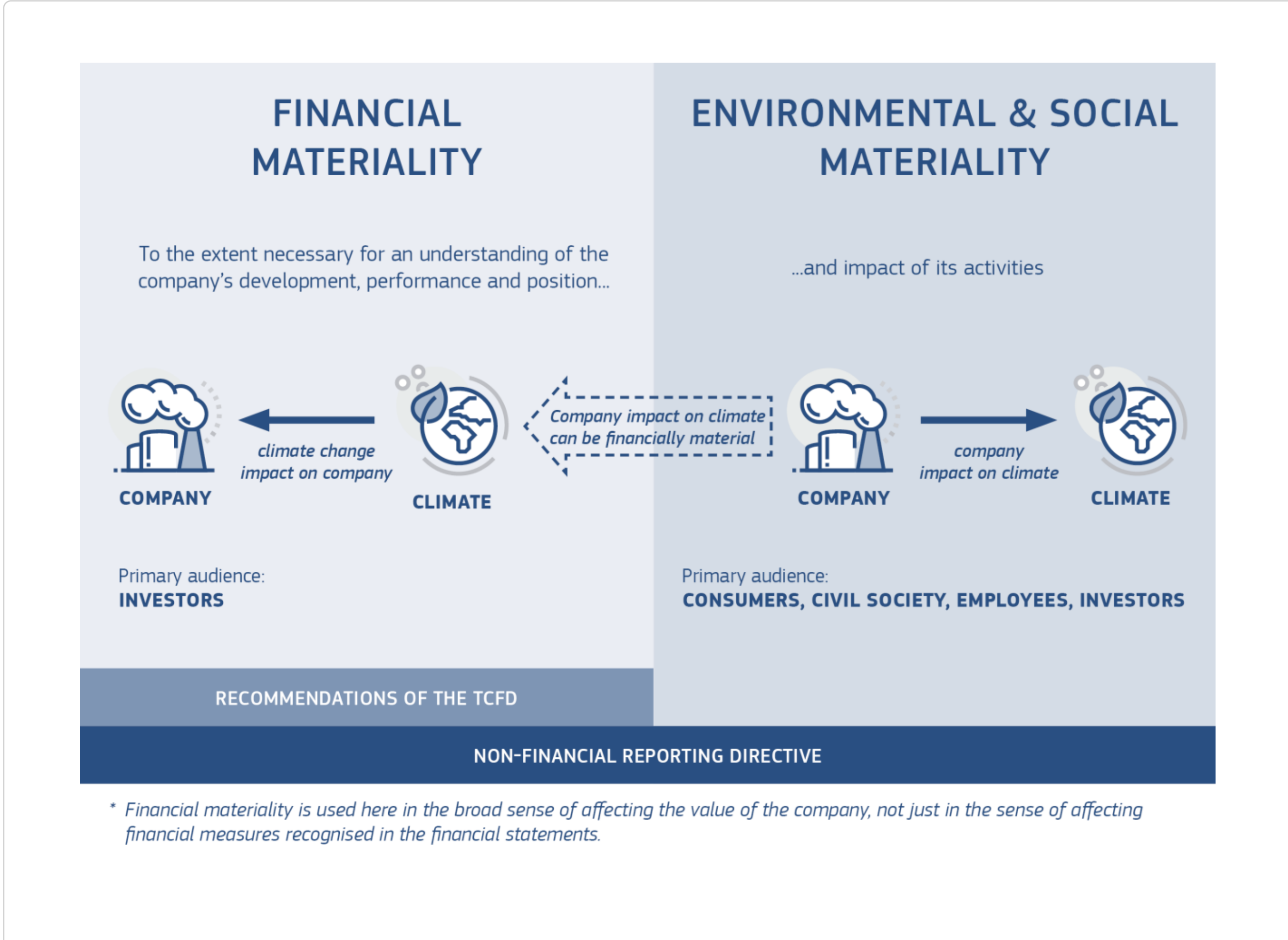
Taking into account the full set of information that a company is likely to need to report through voluntary and mandatory routes, starting with a broad, stakeholder/impact focused materiality lens is likely to be most useful. This can help to define the full set of issues upon which the company may need to report. The organization can then consider different materiality lenses to determine which subset of information may need to be included in which report.

One strong reason to consider the full spectrum of issues when thinking about what is material has been referred to as 'dynamic materiality'. This is based on the recognition that what is material from an enterprise value perspective may change over time: something that at first may primarily have an impact on external stakeholders, can quite rapidly become a business impact, for example as a result of changing legislation or consumer attitudes. As a result, companies should consider all areas where they have a significant impact on people, the environment or the wider economy, even if it is not immediately clear that this has a near term impact on the organization from a financial perspective. This ensures a comprehensive understanding by both companies and investors of value creation (or destruction).

In addition to providing investors with a clear sense of how you are staying on top of key environmental and social factors that might impact your business, engaging with the full suite of stakeholders and having accessible, effective reporting will also be an important component of strong risk management.

29 IFRS Foundation (2020), '**Effects of climate-related matters on financial statements**', November 2020. Accessed: 9 July 2021.
30 European Commission (2019), '**Guidelines on reporting climate-related information**'. Accessed: 9 July 2021.

BOX 7: THE TRICKY ISSUE OF MATERIALITY *continued*



Source: European Commission, 'Guidelines on reporting climate-related information', 2019

CASE STUDY

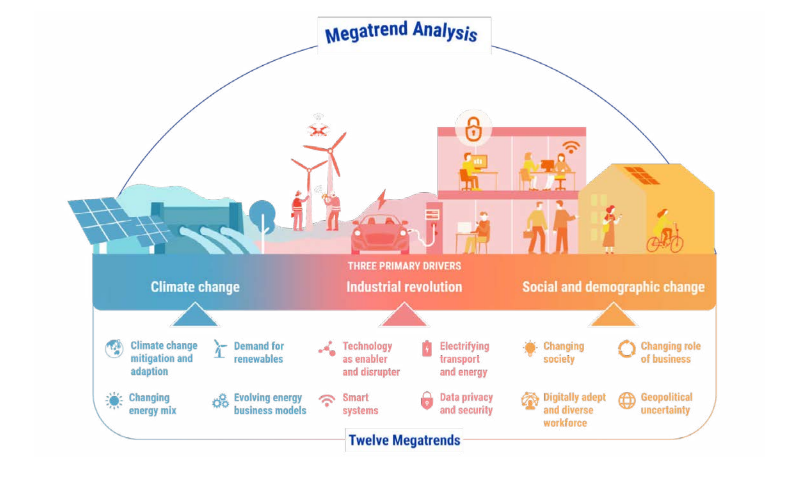
CLP: USING MEGATRENDS TO DEFINE OUR MATERIAL ISSUES

We provide extensive disclosure around how we determine our material issues, including the process we follow and the analysis we perform to identify the specific megatrends that are most likely to impact our business. We start by focusing on megatrends because of their far reaching, long-term impacts on business, economies, industries, societies and individuals.

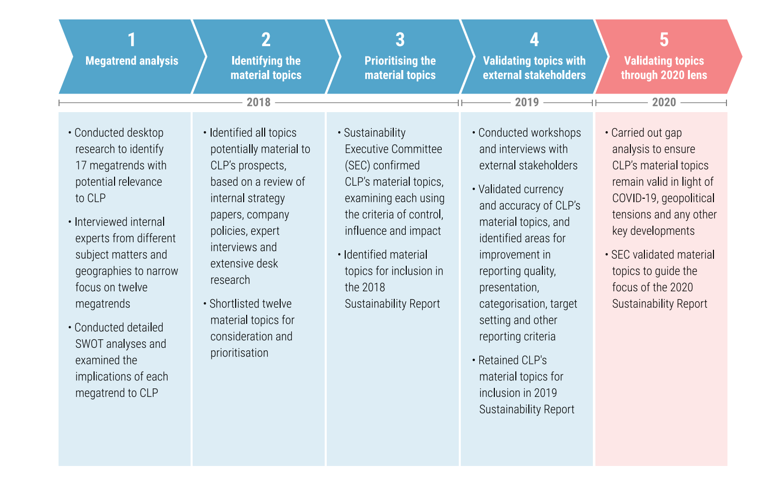
To get from megatrends to material topics, we go through an iterative process of refinement, using desktop research, expert input (both internal and external) and validation with our executive leadership and external stakeholders. This process of refinement considers how much control we have over the topic, how likely the topic is to influence our stakeholders and what the impact of the topic would be on the economies and environment in which CLP operates. This approach means that we focus on the topics that are most relevant to us and our stakeholders, which also guides us to develop meaningful metrics to track our performance and progress.

We went through an extensive materiality determination process in 2018. We then validated our findings and assessed perceptions of our disclosures with external stakeholders in 2019. We revisited our analysis to test if our focus was still valid, given the events of 2020, and decided that it was.

Some investors may be more interested in the data points than this level of disclosure on materiality. But we think it is important for users of our reported information to understand not just what our focus is, but also why.



Source: CLP, '2020 sustainability report'



Source: CLP, '2020 sustainability report'

HAVE A LONG-TERM FOCUS

Environmental and social factors will impact performance over different time horizons but are likely to be particularly material in the long term. Bringing communications back to your long-term objectives and away from the last quarter's performance helps focus discussion on the issues that you see as most directly relevant to the business.

ACTIONS

- Create a better balance between short-term and long-term items in your regular reporting.
- Put short-term issues into the context of long-term strategy, external drivers and context – what are the trends and how will they impact your business? Do not focus on the last quarter in isolation.
- Focus on what long-term investors and the buy side want, not what short-term oriented investors and the sell side ask for.
- Work to find credible and comparable long-term performance measures that can help shift the focus away from short-term indicators, building the evidence base to achieve credibility.
- Measure and report progress over time – include sustainability measures and milestones that show how you are progressing.

ADOPT A COMMERCIAL TONE

To get your investors to take environmental and social issues seriously, you need to explain how they are relevant for long-term value creation. How do they impact the bottom line? While corporate responsibility activities may create a positive license to operate, for investors they are not a substitute for effective management of environmental and social risks, impacts and opportunities. They want to see how your efforts to address environmental and social factors are linked to revenue growth, cost reduction, risk management and retention of key people.

ACTIONS

- Demonstrate that the specific social and environmental factors you are focused on are relevant to your business, eg as business drivers or sources of risk.
- Explain what you are doing, why you are doing it, and what the commercial impacts are.
- Provide the numbers to back up what you are saying, where possible.
- Look at other ways to draw the link back to the business if financial benefits are hard to quantify, eg risk mitigation or building customer loyalty, with evidence to support it.
- Think about what matters for investors – highlight environmental and social information that you can link back to your strategy and business model.

Link to strategy
Provide context
Have a long-term focus
Adopt a commercial tone
Communicate targets
Use standards

CASE STUDY

UNILEVER: EXPLAINING THE BENEFITS OF OUR SUSTAINABILITY APPROACH

Because sustainability is integrated into our strategy, we can explain how focusing on sustainability contributes to superior performance over time, through:

- **Positive contribution to growth**: having brands that stand for something that consumers care about (both in words and actions) is strongly correlated with brand power and ultimately brand growth. Gen Z and millennials, who make up an increasing proportion of the population, particularly care about the brand choices they make. Thus, purposeful brands backed by a purposeful business will drive growth.
- **Cost reduction**: while there may be upfront costs associated with some of our sustainability initiatives, such as moving from virgin to recycled plastics, the expectation (borne out by evidence) is that costs will decrease over time. In addition, certain sustainable practices, such as water and energy efficiency initiatives or reduction of waste and packaging, result in cost efficiencies.
- **Building trust**: our positioning as a sustainable business helps us to build trust with employees, partners and customers. It helps us to be an employer of choice in many of the markets we operate in.
- **Risk reduction**: for example, working with smallholder farmers in our supply chain to improve their climate resilience has an overall benefit for both Unilever (by securing supply) and the suppliers.

For further reading, see 'Enhancing Investor Engagement case study – Unilever'.

Source: Unilever, 'Q4 and full year 2020 results & strategic refresh', February 2021

Link to strategy
Provide context
Have a long-term focus
Adopt a commercial tone
Communicate targets
Use standards

COMMUNICATE TARGETS, METRICS AND PROGRESS IN A CONSISTENT AND COMPARABLE MANNER

Environmental and social metrics and targets allow investors to assess company performance on key metrics and evaluate progress against targets. They provide measurable insight into the company's sustainability performance and its ability to manage change and steer the organizational direction. Many index providers, rankers and rating agencies will use company performance on ESG metrics as inputs to their performance evaluations. Making sure that the information you provide is consistent across reporting channels and comparable year on year makes it easier for investors to understand and enhances the credibility of your reporting.

ACTIONS

- Understand which metrics are most relevant for your industry and your business.
- Consider which metrics are tracked by the most significant rankers, rating agencies and index providers.
- Be clear on which metrics you are tracking and communicating and why.
- Contextualize the targets you select and the metrics you report on. Sustainability does not happen in a vacuum.
- Think about making core metrics available in a single place, in an easily accessible format.
- Make sure the performance measures that you report are comparable over different reporting periods.
- Explain what you disclose and any changes, in case you adjust how you report a specific metric. Similarly, do not just stop reporting metrics, but first check whether your major investors are using them.
- Ensure that your messaging is consistent across different communication channels and outlets. It is easy to spot inconsistencies with digital access.
- Communicate both the good and the bad – reporting should be balanced and honest. Focusing just on positive performance outcomes and ignoring instances where you have not met your performance targets does not give investors a full picture and may damage trust over time.
- Avoid 'greenwashing' – as investors become more savvy about environmental and social topics, they will start to hold companies to account for overblown sustainability statements.

BOX 8: ESG RATINGS

While investors recognize that ESG ratings are imperfect[31,32] and that it is challenging for companies to respond to the myriad of data requests and disclosures associated with obtaining a good rating or ranking, many still use the information produced by ESG ratings providers as an input to their own analysis. Complicating the picture further for companies is the fact that investors may use more than one ratings provider.

Different investors will use ESG ratings in different ways. In some instances, investors will use ratings to flag issues for engagement. Investors may also use the data underpinning the rating to supplement their own analysis, thereby minimizing the data collection they have to do themselves. Investors, especially those with large portfolios, may also use ratings to compare companies to their peers and exclude poorly performing companies from their investment portfolio. Finally, some investors are developing their own proprietary ratings systems.

The good news for companies is that many investors use ESG ratings as an input, not an end point. Investors will often take account of corporate disclosures and the outcomes of company engagement for their analysis and decision making.

There is no neat answer to how to manage the demands imposed by ESG ratings, but the following tips may help:

- Understand which ratings your main investors use and how they use them.
- Keep track of your performance, both individually and relative to others in your peer group. Major ESG rating firms MSCI and Sustainalytics offer public access to limited information on selected issuers, and many ESG rating agencies will provide issuers with access to their company's research as a courtesy.
- Make sure you understand and can explain poor scores or negative changes in scores.
- Try to understand why your scores differ across ratings providers, if this is the case for your company.
- Engage with the ratings agencies to make sure their analysis is based on the correct information.

Finally, remember to focus on what you can control – how you manage your sustainability performance.

Further reading: '**Rate the raters 2020: Investor survey and interview results**', SustainAbility, 2020.

31 Gibson Brandon R. et al. (2020), '**ESG rating disagreement and stock returns**', PRI, 27 March. Accessed 23 April 2021.
32 Mayor T. (2019), '**Why ESG ratings vary so widely (and what you can do about it)**', MIT Sloan, 26 August. Accessed 23 April 2021.

USE STANDARDS

Investors will look at companies both as a standalone investment and relative to one another. The fact that companies report their environmental and social information in different ways makes that more challenging. At the time of writing this guide, there is no single globally accepted sustainability reporting standard. There are, however, widely used and supported standards that improve the accessibility and comparability of company reporting, as well as efforts to develop global baseline standards (eg IFRS Foundation's work on sustainability-related financial disclosures).

ACTIONS

- Make sure you are meeting existing regulatory reporting requirements. For example, many jurisdictions require companies to disclose information that may impact investors' assessment of the company. This means some environmental and social information might already need to be disclosed as part of your financial reporting or other regulatory disclosures.
- Use recognized sustainability standards to report performance whenever possible and get external assurance for the key metrics.
- Find out what standards your industry peers are using for reporting. See if there are opportunities to align at an industry sector level to improve comparability.
- Ask investors what sustainability standards they prefer. Investors increasingly indicate their support for certain standards, so make sure to pay attention. Also, consider asking investors which metrics they would like externally assured.

See Box 9 on the next page for more information.

Further reading: '**Effects of climate-related matters on financial statements**', IFRS, 2020.

BOX 9: NAVIGATING SUSTAINABILITY REPORTING STANDARDS

The 2020 KPMG Survey of Sustainability Reporting finds that a growing number of companies around the world are reporting on their sustainability performance. GRI remains the most commonly used reporting standard or framework, though there has been an increase in reporting against SASB and the TCFD recommendations. Many companies will also report their performance against the SDGs and/or any additional local reporting requirements.

The GRI reporting framework guides organizations to select topics that reflect their most significant economic, environmental and social impacts in consultation with their stakeholders. These topics could include issues that have financially material impacts on the organization as well as topics that impact people and the environment outside the organization. The SASB Standards identify sustainability topics that are reasonably likely to impact the financial performance and long-term enterprise value of the typical company in an industry.

GRI and SASB recently released a joint publication for companies that want to communicate with their various stakeholders using both the GRI Standards and SASB Standards. The report sets out ways in which companies are already using the two sets of standards together and demonstrates the complementary nature of the standards.

Despite these efforts, the multiplicity of reporting standards and frameworks is challenging for both companies and investors. Companies battle with the reporting burden while investors struggle with comparability and consistency. The US Securities and Exchange Commission[33], the European Commission[34] and the IFRS Foundation[35] have all announced that they are working on developing sustainability reporting standards or specific jurisdictional requirements. In the private standard setter space, SASB and the International Integrated Reporting Council (IIRC) have merged, and CDP, the Climate Disclosure Standards Board, GRI, IIRC and SASB have collaborated on joint standard setting, with most of them participating in the IFRS Foundation's Technical Readiness Working Group. It is unclear (given differences in, for example, materiality definitions) that these efforts will result in a single, uniform disclosure standard but it does suggest greater regulatory emphasis on improving the quality of disclosure and steps towards harmonization. COP26 is a key milestone in that journey.

Further reading:

- 'Navigating the Reporting Landscape: An Introduction to Sustainability-Related Reporting for Finance Professionals', A4S, 2021
- 'The art of alignment', SustainAbility, 2019

33 Herren Lee A. (2021), 'Public input welcomed on climate change disclosures', SEC, 15 March. Accessed: 25 April 2021.
34 European Commission (2021), 'Questions and answers: Corporate Sustainability Reporting Directive proposal', 21 April. Accessed: 25 April 2021.
35 IFRS Foundation (2021), 'IFRS Foundation Trustees announce strategic direction and further steps based on feedback to sustainability reporting consultation', 8 March. Accessed: 25 April 2021.

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APPLYING THE PRINCIPLES

HOW CAN YOU INTEGRATE SUSTAINABILITY INTO INVESTOR RELATIONS ACTIVITIES?

A4S CFO LEADERSHIP NETWORK

Essential Guide to
ENHANCING INVESTOR ENGAGEMENT

TOP TIPS FOR APPLYING THE PRINCIPLES

Think about how to apply the principles across all activities that the investor relations team undertakes. Examples of how to do this are set out below, broken down into the following areas:

- Investor relations strategy and operations
- Digital
- Presentations and reports
- Investor meetings, roadshows and quarterly updates

Suggestions have been split between those that are quick and easy to do, and those that will take more time.

INVESTOR RELATIONS STRATEGY AND OPERATIONS

Adapt your investor relations strategy to make sure you tell the most compelling investment story and to help you attract investors who share your vision for the company.

> ***If companies are grappling with emergent issues, their investors are likely to be grappling with them as well. These types of issues are examples of ones where dialogue between corporates, investors and other stakeholders is very important.***
>
> MORGAN SLEBOS, DIRECTOR OF SUSTAINABLE MARKETS, UN PRI

QUICK AND EASY

- Understand which environmental and social issues are front of mind for your investors. Consider both the buy and the sell side, and keep track of issue-focused investor coalitions to understand investor expectations, such as Climate Action 100+ (see Box 2 on page 10).
- Work with your sustainability team to incorporate sustainability into the investment case. Build out your narrative to show how environmental and social factors are integrated into the overall business and strategy.
- Make sure you know who within the organization is responsible for which aspects of your environmental and social initiatives. Connect investors with relevant managers within the company to explore topics in more detail or to address specific questions.
- Identify different opportunities to highlight your sustainability efforts – for example, a dedicated investor presentation on a new environmental and social initiative or mention of key metrics during a standard analyst call.

IN THE LONG RUN

- Equip your board, senior management, divisional heads and all your investor relations colleagues to talk to the sustainability investment case. Ultimately, every representative from the business should be able to speak credibly about why sustainability is relevant – particularly those who might meet your investors.
- Enhance the capacity of the investor relations team to engage on relevant environmental and social topics. Establish formal lines of communication between the investor relations, sustainability and strategy teams. Consider providing training for your investor relations team.[36]
- Ensure your AGM strategy takes account of greater shareholder activism around sustainability. This includes: engaging early and often to understand topics of concern and testing potentially controversial resolutions with shareholders in advance of AGMs; including your board in the investor conversations; listening to investor perspectives and adapting your approach to topics, if you believe it is warranted; and proactively putting issues to shareholder vote.
- Treat engagements as an opportunity for dialogue: do your investors think there are material issues that you have missed, or are there emerging environmental and social topics where investor input could be useful?

36 Details on the A4S Academy can be found at here.

CASE STUDY

EQUINIX: BRINGING SUSTAINABILITY AND INVESTOR RELATIONS INTO THE SAME PLACE

In 2019, in response to growing investor interest in sustainability, our Head of Investor Relations expanded her remit to include pursuing executive sponsorship of Equinix's sustainability strategy. The idea was that this would not only enhance the quality of investor engagement but also elevate the profile of sustainability work within the organization.

This initial alignment allowed us to identify new opportunities almost immediately. For example, we included relevant sustainability information in an earnings call with investors, which led to a CEO interview with The Wall Street Journal about our data centre energy commitments. This led to us updating our media messaging and our communication with customers about aspects of our sustainability strategy.

Eventually we decided to merge the sustainability and IR functions into a single sustainability programme office (SPO) within the finance organization. This group is led by the Vice President of Investor Relations and Sustainability (formerly the Head of IR), reporting into the CFO. The SPO works with functional leads across the business to align with our overarching corporate strategy, ensuring that sustainability is integrated into the business.

This structure reflects our view of sustainability – as a blend of strategy, reporting and engagement. It supports us internally, ensuring necessary leadership support for our sustainability programme and key initiatives, and externally, ensuring the ability to tell a compelling story to our stakeholders.

EQUINIX

> ***We have regular standing meetings with the sustainability team because increasingly there is so much overlap between sustainability and IR. This helps us to work more efficiently and make sure our messaging is consistent.***
>
> SALLY FAIRBAIRN, GROUP COMPANY SECRETARY AND DIRECTOR OF INVESTOR RELATIONS, SSE

BOX 10: UNDERSTANDING THE INVESTMENT VALUE CHAIN – THE ROLE OF PROXY ADVISORY FIRMS

For investors with shareholdings in large numbers of companies, staying on top of the range of issues that shareholders are expected to vote on at AGMs can be challenging.

One of the ways in which they manage this complexity is by relying on the services of proxy advisory firms. Proxy advisers, such as Institutional Shareholder Services and Glass Lewis, will review the proposals for each company's AGM (both those put forward by the company and those from shareholder resolutions) and prepare recommendations on how investors should vote on each item. They will also produce customized research and reports for asset managers. While asset managers should still apply their own judgement when they vote and not simply follow the recommendations as provided, there is no doubt proxy advisory firms are influential in shaping investors' perspectives of the relevant issues.

The role of proxy advisory firms is not uncontroversial[37] but they remain, for the moment, an important stakeholder group for companies to monitor and engage, particularly as these firms increasingly focus on sustainability-related matters.[38]

Some tips for engaging proxy advisory firms:

- Spend some time understanding their voting policies, which are usually made available on their websites.
- Schedule calls or meetings outside of the busy proxy season and understand their engagement protocols.
- Position the engagement as an opportunity to understand their approach and thinking as well as sharing your thinking – an engagement is a two-way process.

37 Edmans A. (2017), 'Conflicts of interest among proxy advisors'. Accessed: 25 April 2021.
38 ISS (2020), 'ISS launches climate voting policy', 9 March. Accessed: 25 April 2021.

DIGITAL

Technology provides companies with more opportunities to tell their sustainability story, but it also expands the range of resources investors can rely on to assess company performance.

QUICK AND EASY

- Put all investor relevant information, including investor-focused sustainability information, in one place to make it easy for investors to find. Think about which formats you can use to provide the information that make it easier to digest.
- Put a link to sustainability information on the investor relations page if you have not yet integrated environmental and social issues throughout all communications.
- Make your sustainability results available on social media (for example, on LinkedIn or Twitter) if you are already doing this for your financial results.

IN THE LONG RUN

- Include relevant environmental and social information throughout all elements of your investor relations website, including:
  - Strategy
  - Corporate governance
  - Investment case
  - Reporting and presentations
  - Press releases
- Be creative about how you present your information – use blogs, podcasts, videos, Q&As and factsheets.
- Consider how investor-focused offerings, enabled by new technologies such as artificial intelligence, that rely on alternative data sources might impact your sustainability narrative (see Box 11 on the next page).
- Monitor developments such as the European Single Access Point initiative[39] to understand the implications for your own reporting.

39 This is an EU proposal to create a single database for all publicly disclosed financial and non financial information.

BOX 11: BEYOND CORPORATE REPORTING – THE ROLE OF ARTIFICIAL INTELLIGENCE

Company reporting (or information that companies disclose) is a primary input into many of the rankings and ratings used by investors. However, some companies are leveraging artificial intelligence (AI) technologies not only to analyse company reporting and public statements, but also to offer investors ESG insights derived from alternative data sources such as media reports, NGO investigations and regulatory filings. These data may also be used for engaging a wider range of stakeholders, eg customers.

There are also suggestions that AI can be used for sentiment analysis, to assess how committed the company is to pursue a particular course of action by analysing a CEO's speech.[40] These types of offerings are not unique to sustainable investing and are also used to provide inputs into 'conventional' investment decision making.[41]

As the ability to process large amounts of data from a variety of sources increases, companies will have to ensure their ESG statements and reporting are consistent. They will also need to recognize that they also have less control over their investment narrative. From a sustainability perspective this reinforces the need to ensure that the 'talk' and the 'walk' are aligned.

40 S&P Global (2020), 'How can AI help ESG investing?'. Accessed: 13 July 2021.
41 Paris A. (2021), 'Connecting the dots between technology and insight.' Accessed: 13 July 2021

PRESENTATIONS AND REPORTS

QUICK AND EASY

- Include existing and relevant environmental and social information in all presentations and reports, such as annual reports and proxy statements. Demonstrate how sustainability is embedded throughout the business.
- Include existing and relevant environmental and social information in your standard investor relations pack and presentation materials. Focus on a few KPIs that even generalist investors will understand.
- Include five-year trend data for all key financial and ESG performance measures alongside one another.

IN THE LONG RUN

- Assess whether to expand the scope of information and metrics disclosed.
- Build convincing sustainability activities and case studies into presentations and reports.
- Have environmental and social information assured by an external party to increase its credibility.

CASE STUDY

AUTODESK: MAKING SURE INVESTORS UNDERSTAND OUR SUSTAINABILITY STORY

At Autodesk, we not only identify and manage ESG risks for our business, but also design our products to help our customers achieve their own sustainability goals. This product focus goes back at least 15 years and is in response to customer demand.

Although sustainability has been a core part of our investment case for many years, we only started to feature sustainability in our investor communications recently. We have learned that it is important to talk about sustainability specifically and consistently across different engagement platforms. If you do not talk about it, investors do not necessarily know what you are doing and that they should ask about it.

So now we include some element of sustainability in everything that investors engage with – from our annual reports to our proxy materials to our investor presentations. Sustainability is always contextualized within our core investment case and narrative. For example, because our impact is through the products we provide, the **investor relations section** of our website includes **case studies** that explain the benefits (both financial and linked to sustainability) that customers derive from using our products. Our ESG disclosures are shared in our annual impact report, which is available to everyone – customers, investors and analysts alike. Further, we post our ESG ratings from MSCI and Sustainalytics to our investor relations homepage.

Source: Autodesk, 'Autodesk investor presentation', November 2020

AUTODESK.

INVESTOR MEETINGS, ROADSHOWS AND QUARTERLY UPDATES

Including environmental and social information in all investor meetings gives a clear sign on the level of integration within the business.

The debate around quarterly reporting and the extent to which it promotes short-term behaviour is unresolved. While some investors feel it is a distraction, others believe that it is an important part of corporate transparency and an opportunity to engage management. Companies will have to identify the balance that works best for them and their investors.

QUICK AND EASY

- Include headline environmental and social information in all investor meetings.
- Keep quarterly reporting concise. Focus on the most relevant metrics and highlight changes from the last reporting period.
- Rebalance your quarterly reporting disclosures to put more emphasis on long-term performance and less on the short term, as long as this is permitted by regulators.
- Tie quarterly information back to longer-term performance and value creation.

IN THE LONG RUN

- Include key sustainability talking points in all investor-focused CEO or CFO messaging.
- Bring clients who benefit from your sustainability focus into your investor engagements, if relevant.
- Consider stopping quarterly reporting if the nature of your business is such that less frequent updates are required. Make sure that management remains available to investors.

BUILDING A LONG-TERM INVESTOR BASE

WHAT CAN YOU DO TO ATTRACT INVESTORS WHO CARE ABOUT THE LONG TERM?

Short-term investor pressure is still sometimes cited as a barrier to sustainability. While it is undoubtedly true that there are still investors who are focused only on short-term returns, it is also true that the tide is turning away from the idea that the sole purpose of the corporation is to maximize shareholder returns. In the US, for example, evidence of this shift is found in Business Roundtable's August 2019 **Statement on the Purpose of a Corporation**.

This is coupled with a dramatic increase in the number of investors (and associated assets under management) factoring at least some environmental and social considerations into their investment decision making and stewardship approaches. Moreover, increasing regulatory guidance across multiple industries and jurisdictions, setting out requirements on climate change governance and reporting in particular, are also affecting the approaches taken by different parts of the global market. We have seen a surge in the number of ESG – especially climate – related products and offerings within the last 24 months, related to portfolios, indices and specialized service providers (fund managers and advisers).

While this is an encouraging sign, navigating the plethora of demands for information and differing guidance available can be challenging. Being clear on your sustainability story and why it matters to your business is the best way to engender investor loyalty.

CASE STUDY

ROYAL DSM: ALIGNING INVESTORS WITH OUR VISION

As we have embedded sustainability into our strategy, business model and business drivers, our investor base has shifted. Most of our investors are long-term growth and/or ESG investors who are loyal to the company and have bought into what we do.

Science-based companies such as DSM can develop and provide solutions to the world's challenges with a long-term strategy and a long horizon approach to R&D. Our shareholders enable us to work on long-term sustainable solutions and back our purpose-led, performance-driven strategy. That is very important: being a shareholder in DSM means having a responsibility towards the company, its people, its customers and its long-term stakeholders at large. We want to attract investors who focus on long-term sustainable growth and who have investment beliefs aligned with our stewardship commitments.

Recently we saw a strong increase in the number of direct engagements with investors on ESG topics, includind SDG impact. ESG has become part of the regular agenda of the investor meetings and is no longer a topic solely for the sustainability specialists. Being recognized as a leader in sustainability and at the same time showing continued good financial progress, we have been frequently invited for indepth engagement calls and meetings on how to include and compare important nonfinancial parameters in their investment processes.

A4S CFO LEADERSHIP NETWORK

TEN TAKEAWAY MESSAGES

TEN TAKEAWAY MESSAGES

- Put sustainability at the heart of your strategy – if you do not believe it, neither will your investors
- Be clear, internally and externally, about why sustainability matters to your business
- Embed sustainability into how you do business and throughout your business operations
- Reward management for long-term success
- Set targets and report against them consistently and transparently
- Build sustainability into your investment narrative and equip all business representatives to speak confidently about drivers of performance
- Make it easy for investors to access the information they need
- Understand the sustainability issues that are most relevant to your investors and what they would like to hear from you
- Focus investor relations efforts on long-term investors who recognize the importance of sustainability
- Stick to it – be consistent!

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GLOSSARY

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GLOSSARY

Environmental	Environmental factors examine how a company performs as a steward of the natural environment, and how it manages the impact of the environment (eg water scarcity, extreme weather, biodiversity) on the business operations.
Environmental, Social and Governance (ESG)	A set of factors or criteria that are critical to the success of businesses across all sectors. Environmental factors examine how a company performs as a steward of the natural environment. Social factors examine how a company manages relationships with its employees, suppliers, customers and the communities within which it operates. Governance deals with a company's leadership, ethical conduct and oversight, executive pay, audits and internal controls, and shareholder rights.
Greenwashing	Making false or misleading statements about the environmental benefits or performance of, for example, a company, product, service, or technology.
Social	Social factors examine how a company manages relationships with, and supports resilience of, its employees, suppliers, customers and the communities within which it operates, and how these groups impact the business operations.
Stakeholder	A party that can either affect or be affected by an organization. Stakeholders can be internal or external. Internal stakeholders are those who have a direct relationship with an organization, such as employees; external stakeholders are those who relate to the actions and outcomes of the organization, such as customers, suppliers, investors or governments.
Sustainability	The ability to satisfy the needs of the present generation without adversely affecting the conditions for future generations.
Sustainable business	A business that delivers financial returns in the short and long term in a way that generates positive value for society and the environment, operates within environmental constraints and contributes to the ongoing resilience of social and environmental systems.
Value creation	Value is created through an organization's business model, which takes inputs from the resources on which it depends and transforms them through business activities and interactions to produce outputs and outcomes that, over the short, medium and long term, create or destroy value for the organization, its stakeholders, society and the environment. Value is to be interpreted by reference to thresholds and parameters established through stakeholder engagement and evidence about the carrying capacity and limits of resources on which stakeholders and organizations rely for wellbeing and profit, as well as evidence about societal needs, interests and expectations.

THE A4S CFO LEADERSHIP NETWORK

The Prince's Accounting for Sustainability Project (A4S) was established by HRH The Prince of Wales in 2004 to convene senior leaders in the finance, accounting and investor communities to catalyse a fundamental shift towards resilient business models and a sustainable economy.

The A4S CFO Leadership Network was launched at St James's Palace in December 2013. It brings together a group of leading CFOs from large organizations that are seeking to embed management of environmental and social issues into strategy and decision making, and is currently the only network of its kind. The Network has worked on a number of projects including this guidance. The outputs from the other projects are available from the A4S website www.accountingforsustainability.org

Our project team would value feedback on this guide from other organizations working in this area. Please send any comments to: info@a4s.org

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