BRUNSWICK INSIGHT

ESG Investor Survival Guide: **Avoiding the Flood**

May 2022

Market Intelligence

Introduction

As ESG's push into the mainstream has gathered global pace, stakeholders are increasingly looking beyond high-level corporate commitments and seeking evidence of how company ESG plans will come to life. The corresponding flood of additional company disclosures, often inconsistently presented to the market, have created new challenges for investors who are seeking to decipher the signal through the noise.

From the corporate side, companies are finding it difficult to effectively communicate in a marketplace of multiple stakeholders with competing views and a lack of common lexicon. In response, regulators are working to drive companies towards common standards on environmental issues, with the SEC's proposed climate disclosure rules set to effectively require public companies to align with The Task Force on Climate-Related Financial Disclosures' framework.

On the global stage, in November 2021 the International Financial Reporting Standards Foundation (IFRS) created a new standard-setting board, the International Sustainability Standards Board (ISSB). Its first two proposed standards build upon the TCFD recommendations and incorporate disclosure requirements derived from Sustainability Accounting Standards Board (SASB) standards. Keeping information relevant, and understanding the best applications for internal resources, are crucial to preventing corporate ESG communications from being swept away in the current.

It is major investors who are becoming the main advocates for social change, and trillions of dollars in capital is being mobilized to that end. Assets under management by UN PRI signatories are over $120trn today, up from $6.5trn in 2006, and more than 80% of global asset managers are implementing or evaluating ESG considerations in their investment strategy[1].

Retail investors are increasingly speaking with their wallets too, attempting to navigate reams of information to integrate ESG into their portfolios for a variety of motivations. In the US, 39% of ESG investors make such investments because they believe it's a better way to invest, while 25% are on a mission to align assets and values[2].

In response to the rapid pace of change, Brunswick Group conducted research to assess institutional and retail investor sentiment around ESG.

Our main finding is that while institutional investors are increasingly dedicating time to ESG analysis, and overwhelmingly believe such analysis is here to stay as part of their investment process, the majority are becoming weary of the amount of ESG coverage they are receiving.

This poses a unique communication challenge, and our evidence shows strong institutional investor support for their portfolio companies to address ESG. Chiefly, companies need to consider how they are communicating on ESG, the extent to which their shareholder base and/or reputation are tied to ESG, and how to prioritize which ESG messages they elevate.

The findings of our February 2022 survey with over 250 global institutional investors and 1,000 US retail investors provide perspective.

We have broken the findings into three sections:

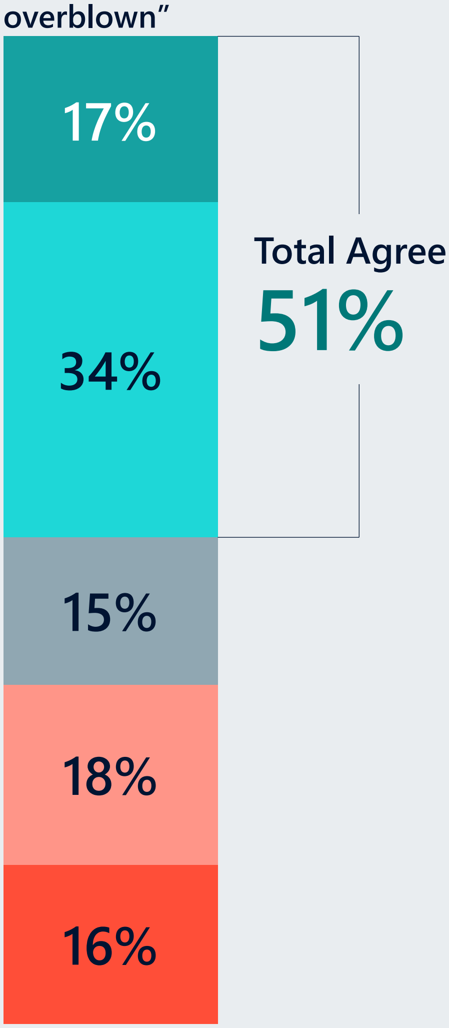
1. Going Mainstream; The Growth of ESG
2. Nuances Among Stakeholders; The Relative Importance of E, S, and G
3. Integrating ESG; The Practical Benefits of Adoption

[1] https://www.ftserussell.com/press/sustainable-investment-now-standard-according-global-asset-owner-survey
[2] https://www.im.natixis.com/us/research/esg-insights-from-2021-individual-investors-survey

Going Mainstream;
The Growth of ESG

ESG has taken its place at the center of many companies' financial narratives. Those companies have begun to engage stakeholders around ESG and the volume of ESG-related communications and corresponding media coverage has skyrocketed.

"Attention to ESG is overblown"



**Institutional Audience Only*

Over the past year, a selection of US top tier media outlets published 2,549 stories containing "ESG". Three years ago, that figure stood at 656.

Interest has surged too, with Google searches for 'ESG' up ten-fold over the past five years, but among institutional investors the deluge of information has become overwhelming. In our survey half of institutional investors agreed with the statement that attention to ESG is overblown.

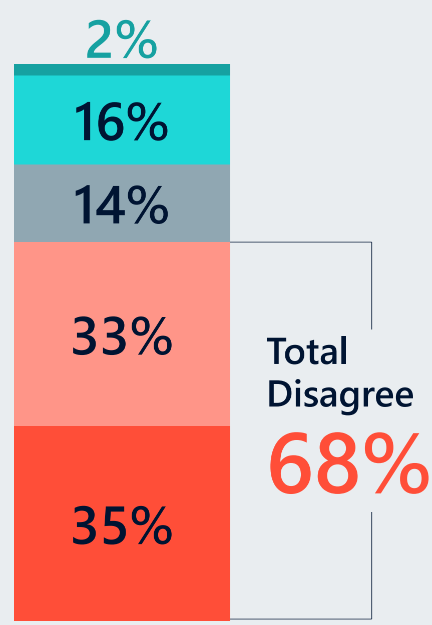
ESG being "overblown" could be driven by the compounding perspectives covering the topic. Coverage often includes a combination of media perspectives, company messaging, framework or regulatory updates, academic literature, debates about stakeholder capitalism, and much more. Investor irritation is further exacerbated when trying to pick up a new investment thesis, follow new ESG reporting metrics, or understand the various levels of ESG disclosure detail.

For companies, the takeaway is not to avoid engaging, but to prioritize targeted investor-specific engagement and dedicate more time to considering the specific needs of each individual institutional investor.

Although investors are somewhat overwhelmed, the vast majority do not believe ESG analysis is a fad, and in general investors see new information as a venue for more informed decisions. Only 18% of institutional investors surveyed agreed with the statement that "ESG analysis is a passing fad," while 68% disagreed.

Companies' disclosures around ESG are now a crucial touchpoint with investors, that are increasingly being used at a fundamental level to assess their growth prospects.

"ESG analysis is a passing fad"



**Institutional Audience Only*

■Strongly Disagree ■Somewhat Disagree ■Neither Agree Nor Disagree ■Somewhat Agree ■Strongly Agree

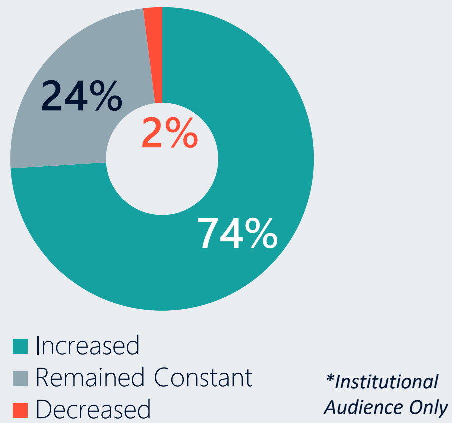
ESG ratings agencies have also emerged as a new and increasingly influential stakeholder group. MSCI's ESG Ratings & Climate Search Tool, for instance, now covers almost 3,000 companies, and an estimated 60% of the money retail investors had put into sustainable or ESG funds globally last year went into funds built on MSCI's ratings[3]. That said, the degree and sophistication to which ESG criteria have been incorporated into investment processes varies substantially based on the investor.

Not surprisingly, our survey shows institutional investors are far more likely to incorporate ESG information into their investment decisions compared to retail investors. Only 5% of retail investors surveyed said that they integrate such information "a great deal", versus 34% for institutional investors.

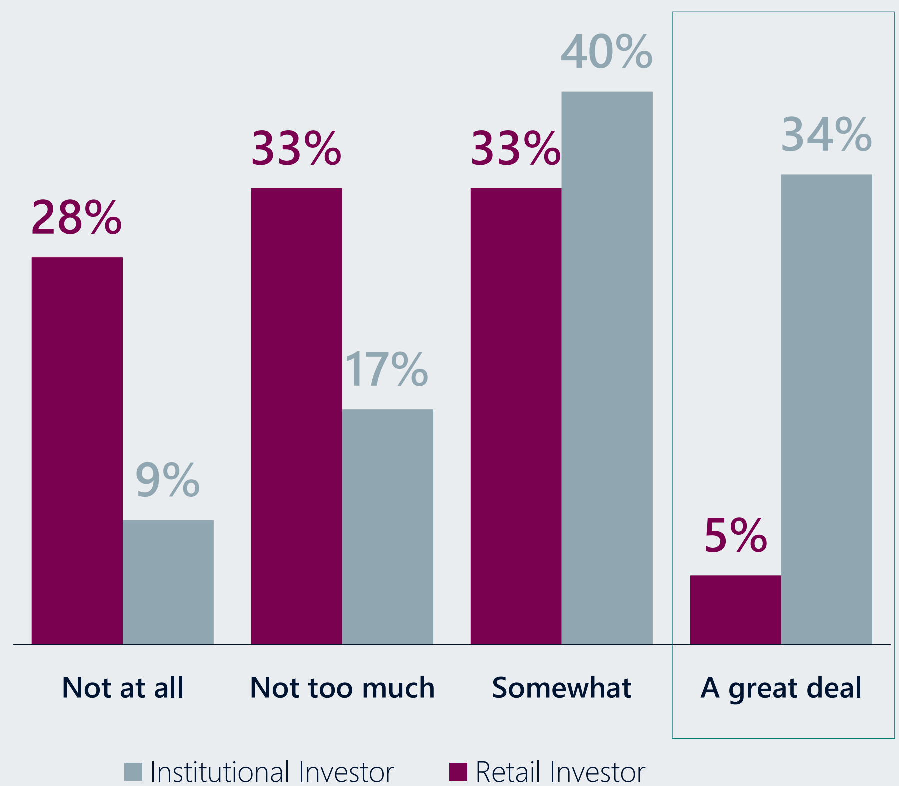
Companies often conflate ESG communications with a retail investor strategy, to communicate with individual investors on issues that are important to them, but the truth is that institutional investor audiences are much more interested in ESG disclosures.

Institutional investors also wield substantially more power to apply pressure to companies on ESG matters, which they are increasingly using. For example, in the 12 months ending June 2021, BlackRock opted not to support management of 319 companies for climate-related reasons, compared to 53 the year prior[4].

Over the last year, has the amount of time you've spent on ESG analysis increased, decreased, or stayed the same?



To what degree do you integrate ESG information into your investment decisions?



Despite fatigue among some institutional investors at the amount of coverage ESG is getting, most have been increasing the amount of time they spend on ESG analysis. In fact, three-quarters of institutional investors surveyed said that their time spent on ESG analysis has increased over the last year, and, perhaps most notably, only 2% of respondents reported any decrease in time spent.

Our View:

The fact that institutional investors are broadly increasing the time they spend on ESG analysis, at the same time as a majority feel that coverage of ESG is overblown, underscores the importance of companies learning to communicate effectively with the specific needs of investors in mind.

It may seem obvious, but companies need to build an understanding, that they continually refresh, of evolving methodologies and inputs that investors are relying on, and the information formats that are most likely to engage and be useful to them.

[3] https://www.bloomberg.com/graphics/2021-what-is-esg-investing-msci-ratings-focus-on-corporate-bottom-line/
[4] https://www.bloomberg.com/news/articles/2021-07-20/blackrock-voted-against-255-directors-for-climate-related-issues

Nuances Among Stakeholders; The Relative Importance of E, S, and G

How can companies determine which ESG content should be prioritized? Balancing the different components of ESG when engaging different audiences is a tricky business, and approaches vary widely by industry and sector.

Across most top tier media, environmental and social issues dominate headlines, but institutional investors are heavily influenced by the "G". The concept of corporate governance emerged decades ahead of ESG itself, and is the least politicized piece of ESG, with clearly demonstrable short- and long-term benefits. There is a long-standing acceptance that governance is more connected to shareholder value, as many studies have shown that good governance policies are linked to financial out-performance.

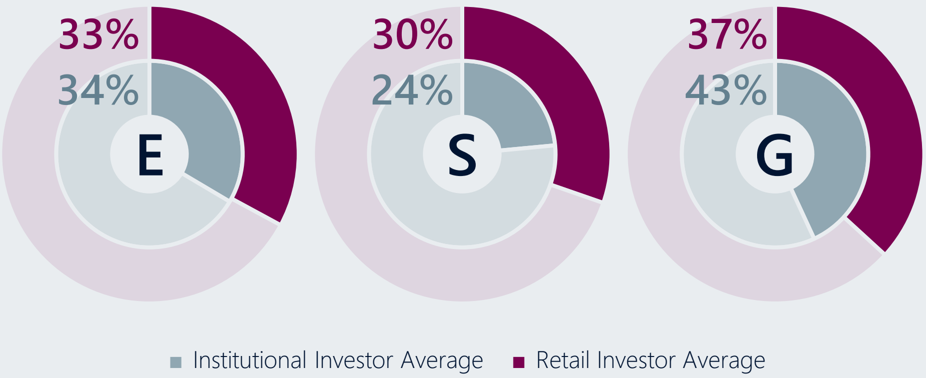
Among the investors we surveyed, both the retail and institutional groups agreed that governance is the most important consideration in investment decisions, but the margin is thin in retail, where investors assign near identical importance to all three categories. Notably, environmental issues are viewed as equally important to investment decisions across both retail and institutional investors.

Retail investors place far more emphasis on the social impacts of companies than their institutional counterparts, and in response more companies are beginning to provide voluntary social disclosures that can engage both retail shareholders and their own customer bases. Most employers now have to submit an EEO-1 diversity report to the government, and large companies are increasingly opting to make that data public voluntarily.

A majority of the American public (73%) think it is important for large companies to publicly share progress on diversity programs by reporting statistics on the demographic makeup of their workforce, leadership team, and board[6].

Incorporating the "S" into investment processes is tougher for institutional investors, who have to quantify and justify the inputs they are using. In a 2021 survey from BNP Paribas[7], 51% of institutional investors globally said that the "S" is the most difficult component of ESG to analyze and embed in investment strategies, due to an acute lack of standardization around social metrics.

To what extent are E (Environmental), S (Social), and G (Governance) individually important to your investment decisions? Total out of 100.



Our View:

The outsized importance of governance for institutional investors demonstrates the importance of audience-specific ESG communications. For the institutional investor group, that could include strong engagement ahead of an AGM on topics such as board composition, compensation targets, and transparency.

Importantly, audience-specific communications need to meet those audiences where they are, through tailoring engagement for different platforms and channels.

6 https://justcapital.com/news/95-of-black-americans-agree-that-its-important-for-companies-to-promote-racial-equity-80-believe-they-can-do-more/
7 https://securities.cib.bnpparibas/esg-global-survey-2021/

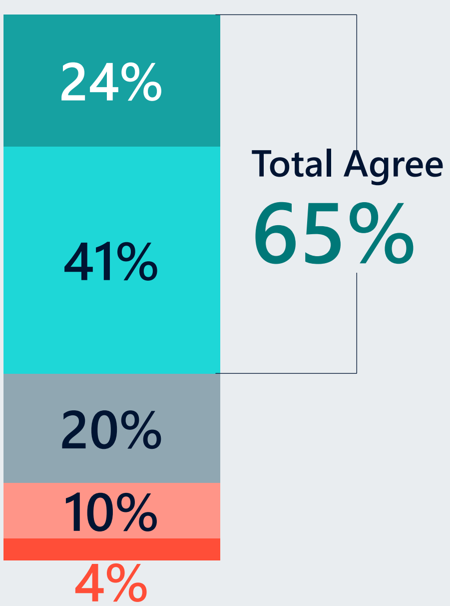
Integrating ESG; The Practical Benefits of Adoption

The benefits of adopting ESG are mixed. The vast majority of institutional investors surveyed expressed desire for their own portfolio companies to embrace ESG. This desire for adoption makes sense given the growing demand for ESG assets and risk mitigation it may provide. That said, institutional investors indicated mixed results and are still figuring out how to implement ESG into their portfolio selection process.

Our research shows that 65% of institutional investors hope their portfolio companies embrace ESG, perhaps to capitalize on the benefits of the tide change. This means corporations have broad investor support to embrace ESG integration at present, especially if it is seen as a catalyst to a higher valuation.

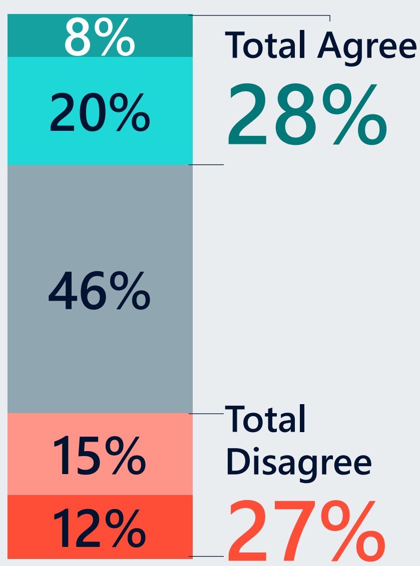
Perhaps most interestingly, institutional investors are split on the results of ESG integration into their portfolio. Our survey shows that 28% of institutional investors agreed that their performance has improved through ESG while 27% actively disagreed. Clearly some investors are more comfortable than others with ESG but as sophistication and investment approach vary, companies will need to remain cognizant that they are addressing both passionate advocates who have already enjoyed enhanced returns from ESG analysis, and frustrated investors who have dedicated time with no perceived reward.

"I want my portfolio companies to embrace ESG"



*Institutional Audience Only

"Incorporating ESG has positively impacted my performance"



*Institutional Audience Only

Our View:

In terms of communications, it is important to understand that investors are still learning how to incorporate ESG into their portfolios and utilize ESG analysis to enhance returns – specifically risk-adjusted returns. Often investors indicate ESG is more about risk mitigation vs. a catalyst that will drive a stock forward.

There is no on/off switch an investor can flick to successfully integrate ESG into their investment processes overnight. Recognizing that there is a continuum of experiences and adapting communications accordingly will be critical for companies to engage a broad investor base on ESG.

■Strongly Disagree ■Somewhat Disagree ■Neither Agree Nor Disagree ■Somewhat Agree ■Strongly Agree

Conclusion

In summary, at the same time as investors are spending increasing amounts of time on ESG analysis and their sophistication on the subject matter advances, competition to engage them on ESG is heightening and their bandwidth for incoming communications on ESG is fast becoming saturated.

Investors are clearly supportive of their portfolio companies telling a compelling ESG story but are struggling to connect their own integration of ESG with an improved investment track record. It's been easy to argue why ESG integration improves performance, but it's been quite hard for investors to systematically demonstrate ESG enhances returns.

Due to the combination of these factors, it is more important than ever to effectively engage investors on ESG and the bar for ESG communications to cut through the noise is rising continually higher. Investor needs in terms of ESG inputs also vary substantially both between retail and institutional, and within those groups, making audience specific communications a must over a one-size-fits-all approach.

Companies should be mapping their investor stakeholders' respective needs, and the components of ESG that are most material to their businesses' financial success, in order to be purposeful about providing investors with inputs that can meaningfully enhance their ability to make investment decisions.

Lastly, companies need to ensure they constantly evolve their understanding of best practices in measuring, reporting, and improving on the components of ESG that are most meaningful to investors in their business. ISSB's recent proposals, specifically on sustainability and climate related disclosures[8], are emblematic of the rapid pace of change in the reporting landscape and highlight the growing ESG related challenges.

[8] https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/

About the Research

In February of 2022 Brunswick Group fielded research with 250 institutional investors and 1,000 retail investors. The global institutional investor sample only contains active managers and represents $7.1 trillion in equity assets under management. The retail investor sample is limited to US-based investors with investable assets over $10,000. This research was conducted by Brunswick's Capital Markets Analytics and Insight ("CMAI") team.

Brunswick Authors

Geoff Serednesky
Director, Chicago

James Connington
Associate, New York

About CMAI

Brunswick's CMAI team aims to integrate primary and secondary data into critical issues advisory services. Our team specializes in using perception and diligence-based approaches to guide financial and corporate communication decisions. The team leverages Brunswick's broad global collaborative network and deep capital markets expertise to offer informed independent advice on engaging financial market audiences during situations such as M&A, IPO, and Shareholder Activism, as well as ongoing Investor Engagement.

For additional information email:
CMAI@BrunswickGroup.com

Collective Intelligence