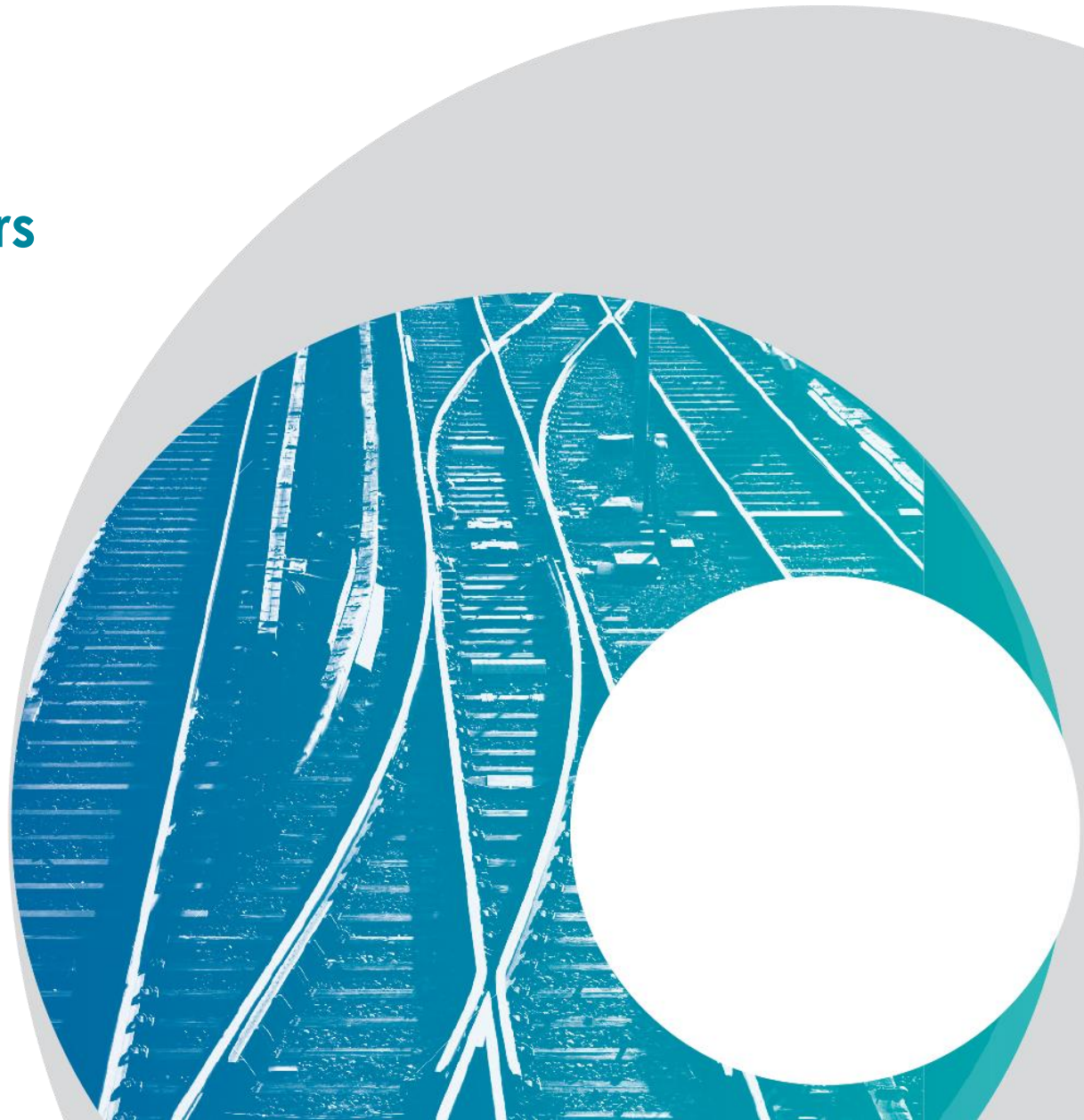


Investor perspectives
on sustainability:

**How can companies
better engage investors
on ESG performance?**



Welcome to the webinar

Speakers

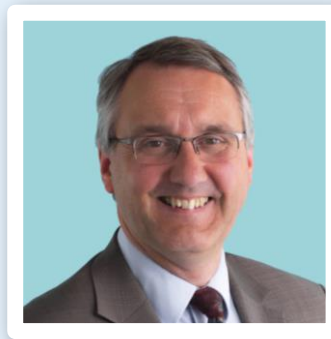


Verity Chegar
VP ESG STRATEGIST
BlackRock



Eric Fernald
EXECUTIVE DIRECTOR,
ESG RESEARCH
MSCI

Hosts



Mike Tuffrey
FOUNDING DIRECTOR
Corporate Citizenship



Esther Toth
ASSOCIATE DIRECTOR
Corporate Citizenship

Webinar objectives

1. Better understanding of how investors use ESG information
2. What can companies do about it
3. Evolving investor expectations around ESG disclosure and performance

Housekeeping

Asking questions

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Audio

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Internal Microphone Array (IDT...)

Speakers / HP (IDT High Definit...)

Questions

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Responding to polls

QuickPoll

QUICKPOLL

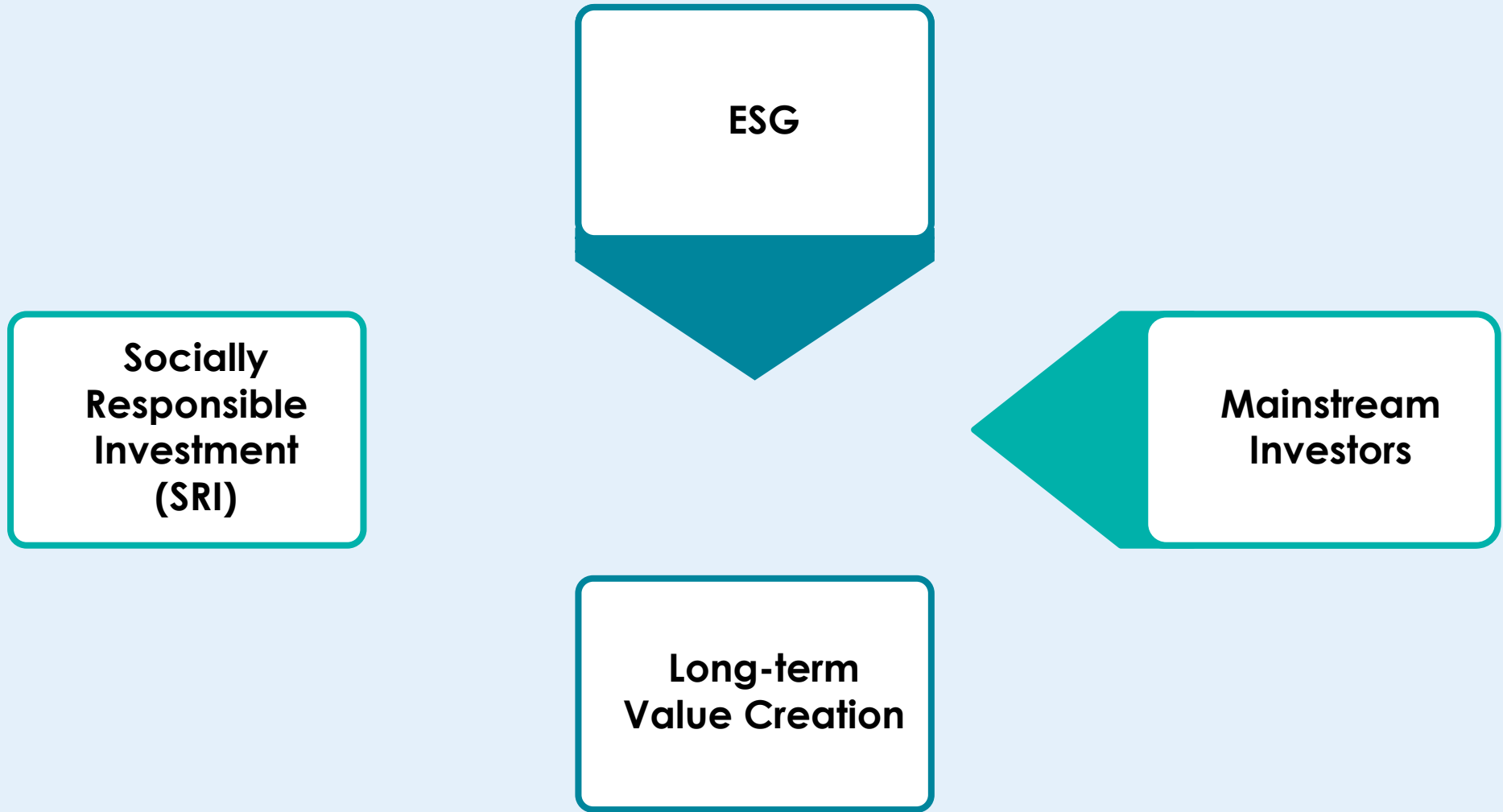
What is your most productive time of day?

Select one of the following:

Morning
 Midday
 Afternoon
 Evening
 Late Evening

Submit

A few definitions



Verity Chegar

Vice President, ESG Strategist



BLACKROCK

“Over the long-term, environmental, social and governance (ESG) issues – ranging from climate change to diversity to board effectiveness – have **real and quantifiable financial impacts**.

At companies where ESG issues are handled well, they are often a signal of operational excellence.

BlackRock has been undertaking a **multi-year effort to integrate ESG** considerations into our investment processes, and we **expect companies to have strategies** to manage these issues.”

Larry Fink, BlackRock CEO Governance Letter to S&P 500 CEOs, February 2016

Eric Fernald

Executive Director, ESG Research



“It’s challenging to wade through ESG information because much of what is disclosed is **not financially relevant**.

It’s also hard for investors to know what any piece of ESG data means without industry context or rigorous peer benchmarking. That is why we see a **great deal of uptake** among institutional investors for **using ESG ratings in their investment analysis.**”

Linda-Eling Lee, Global Head of Research, MSCI’s ESG Research group, Forbes, June 2015

ESG

as a Risk Factor



SYSTEMATIC RISK



WEATHER PATTERNS



WATER SCARCITY



DATA SECURITY



DEMOGRAPHIC SHIFTS

ASSESS MANAGEMENT QUALITY & LIMIT SURPRISES AND EVENT RISKS



ACCIDENTS



SHUTDOWNS



FRAUD



STRIKES

CORPORATE GOVERNANCE: FOUNDATION OF RISK MANAGEMENT



BOARD



PAY



OWNERSHIP & CONTROL



ACCOUNTING

Recent Examples:

Volkswagen

Prior to emissions cheating scandal, flagged on Governance and accounting concerns

Valeant

Downgraded in May '15 on "Very Aggressive" accounting, drug pricing, & product safety concerns

Wells Fargo

Bottom ratings predating the customer account scandal were driven by major governance concerns, complaint data, and product oversight lapses.

MSCI ESG Rating Model

Key Issues



ENVIRONMENT PILLAR				SOCIAL PILLAR				GOVERNANCE PILLAR	
Climate Change	Natural Capital	Pollution & Waste	Env. Opportunities	Human Capital	Product Liability	Stakeholder Opposition	Social Opportunities	Corporate Governance	Corporate Behavior
Carbon Emissions	Water Stress	Toxic Emissions & Waste	Clean Tech	Labor Management	Product Safety & Quality	Controversial Sourcing	Access to Communication	Board	Business Ethics
Product Carbon Footprint	Biodiversity & Land Use	Packaging Material & Waste	Green Building	Health & Safety	Chemical Safety		Access to Finance	Pay	Anti-Competitive Practices
Financing Environmental Impact	Raw Material Sourcing	Electronic Waste	Renewable Energy	Human Capital Development	Financial Product Safety		Access to Health Care	Ownership	Corruption & Instability
Climate Change Vulnerability				Supply Chain Labor Standards	Privacy & Data Security		Opportunities in Nutrition & Health	Accounting	Financial System Instability

Three-Step Process

- 1) Identify Key Issues By Industry
- 2) Measure Risk Exposure
- 3) Measure Risk Management

Responsible Investment

Insuring Health & Demographic Risk

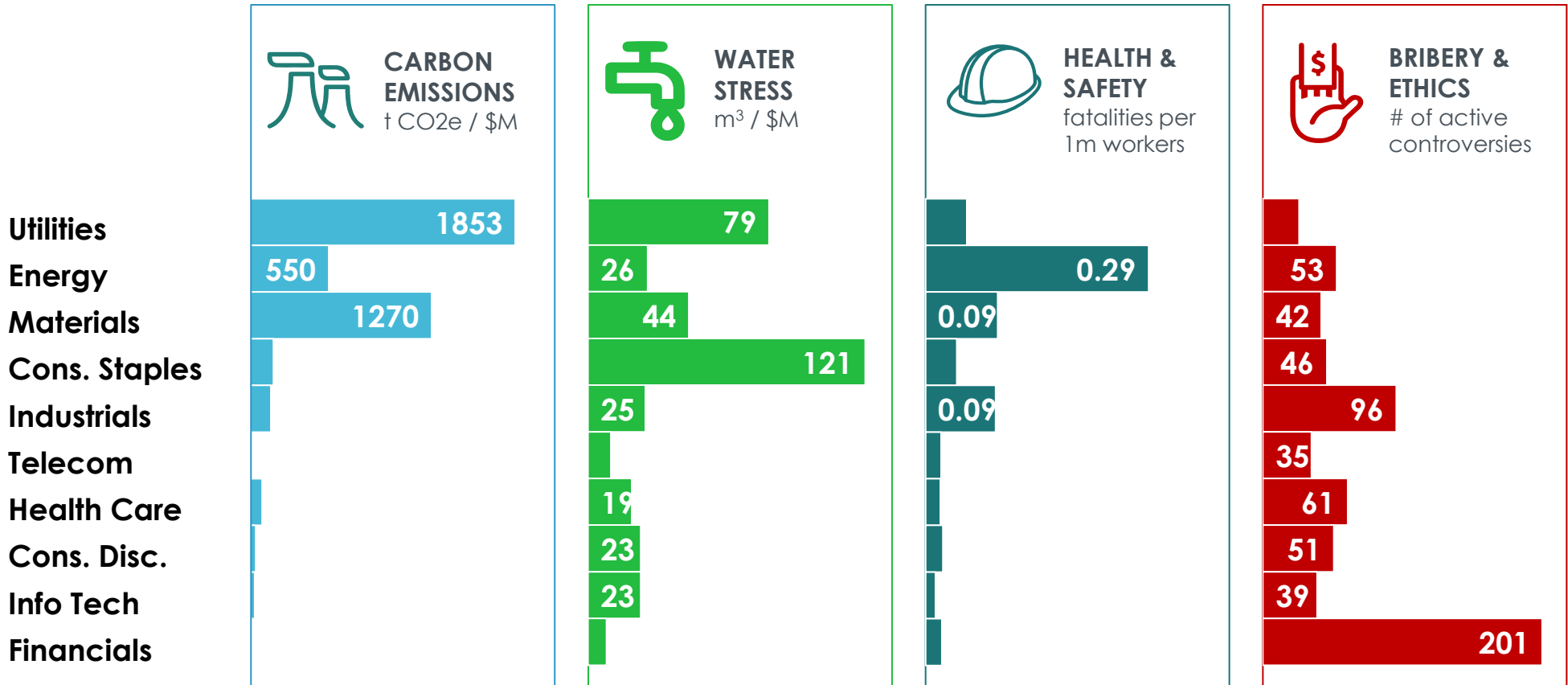
NEW:

Tax Transparency

How does MSCI assign materiality to ESG topics on a sector by sector basis?

How to Choose?

Which ESG Issues are significant?



Which Issues

Are the Most Significant to the Industry?

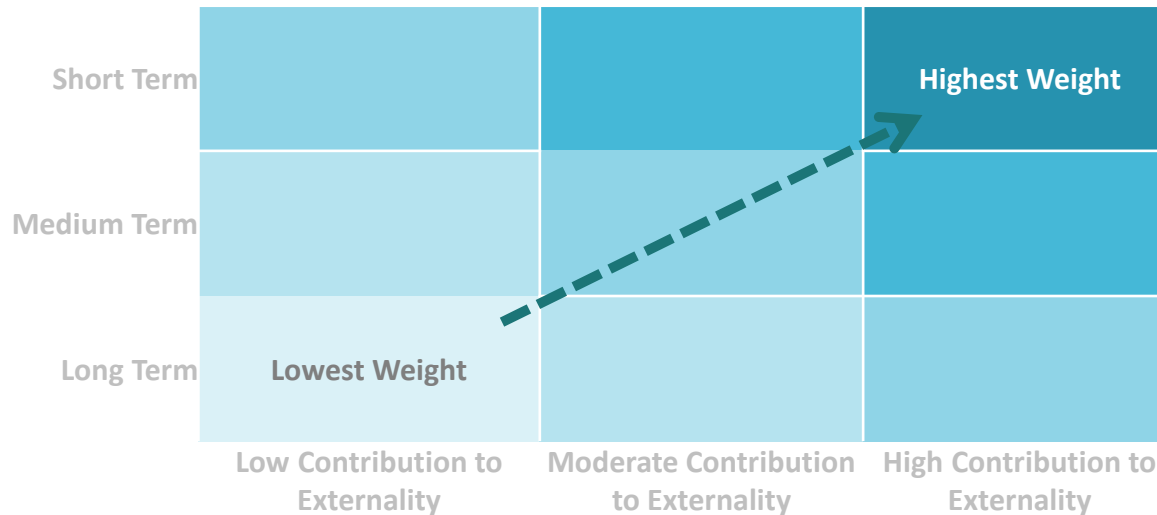


ESG Key Issue Weights Are Based On:

Industry's contribution to externality vs. other industries

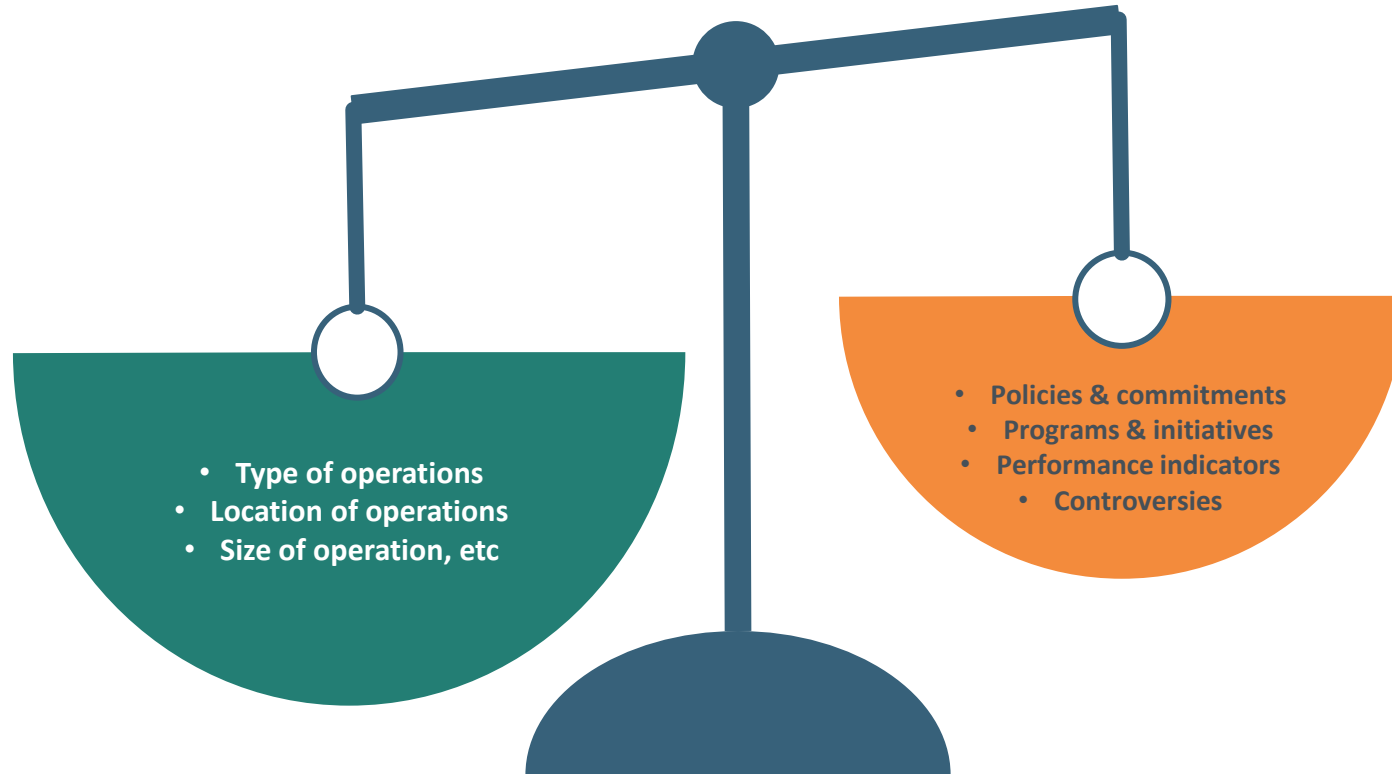
Time horizon of risk factor for that industry

Weights Set by GICS Sub-Industry

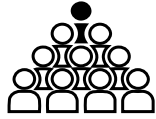


What process does MSCI use to rate company ESG performance?

Measuring ESG Risk Exposure

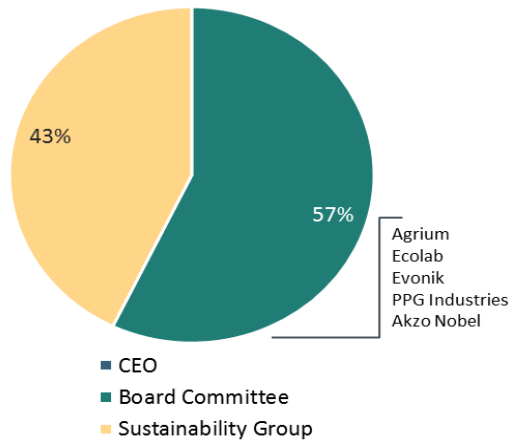


Assessing Risk Management



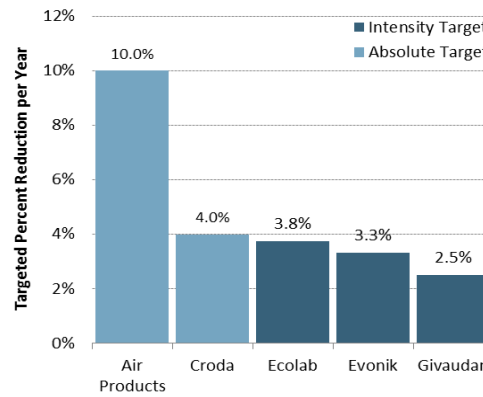
POLICIES AND OVERSIGHT

ex: Highest Level of Water Oversight



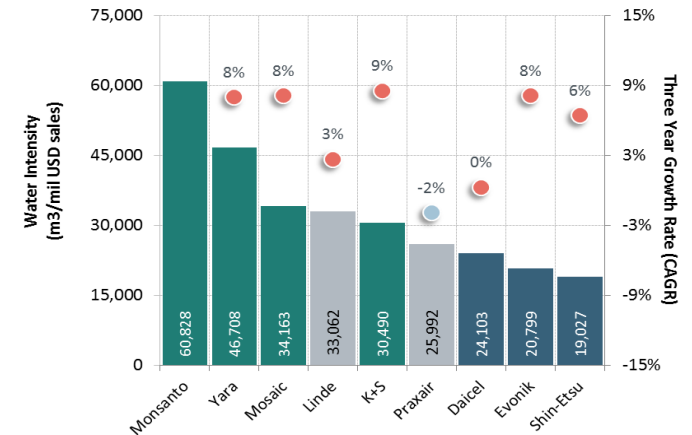
TARGETS AND PROGRAMS

ex: Water Reduction Targets



PERFORMANCE METRICS

ex: Water Withdrawal Intensity



Management data points inform risk mitigation

Company data as of May 2016. Source: MSCI ESG Research

How does MSCI work with
companies throughout the year?

ESG Ratings Data Review process



- **Quarterly Alert for Pending Update:** all companies whose industry is scheduled for an update in the upcoming quarter are alerted and invited to provide MSCI ESG Research with data updates.
- **Industry Update Engagement Period:** all companies are invited to engage with MSCI ESG Research while analysts are actively updating management assessments for the industry.
- **Data Review Report Available:** a completed data review report (containing all relevant data collected by analysts) is sent to all companies after the industry update period ends, and companies are invited to review and engage with MSCI ESG Research at their convenience.
- **Post-Industry Update Engagement:** all companies are invited to engage with MSCI ESG Research at any time during the year to update data.

Audience Poll

Audience Poll

Poll 1: Have you incorporated investor views in your company's materiality assessment process?

- a) Yet to undertake a thorough materiality assessment
- b) Conducted materiality review, without direct investor input
- c) Specifically asked investors/owners as part of the process

Poll 2: How would you describe your organization's engagement with investors on ESG issues?

- a) Only responding to ESG research and rating providers
- b) Also, some engagement, mainly to answer queries
- c) Also, some dialogue, but mostly with specialist SRIs
- d) Proactive engagement with both SRI and mainstream investors
- e) We don't currently engage with investors on ESG issues

“Investors don’t care about ESG and long-term”

**ESG integration among
asset managers**

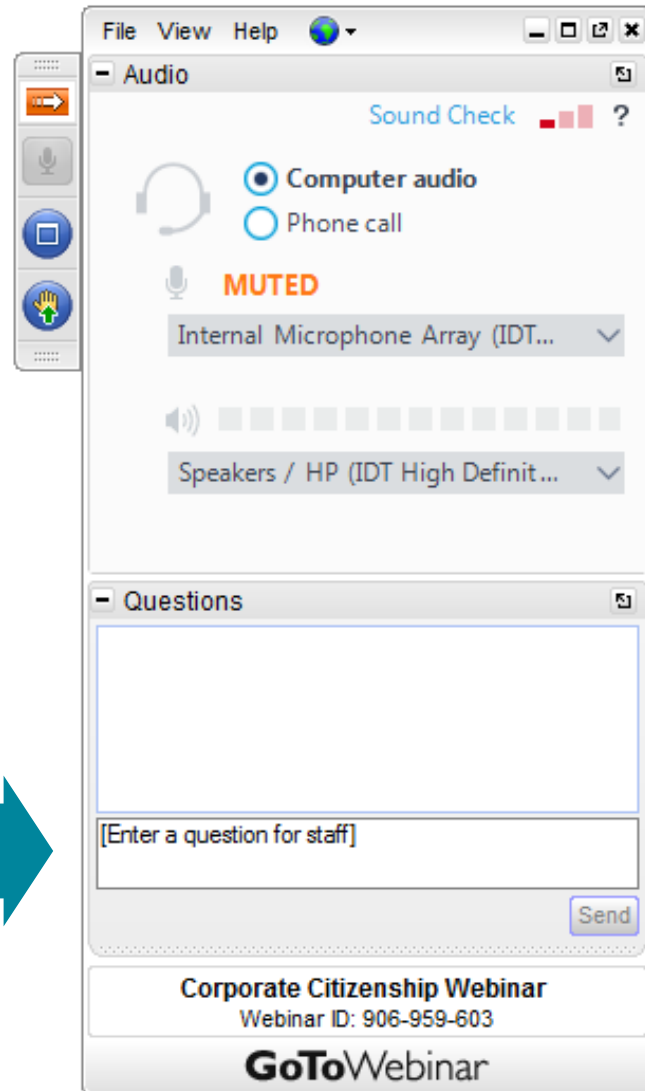
**Policy instruments related to
fiduciary duty**

**Significant growth in
AUM incorporating ESG**

**Managers’ perceptions of investors’ views
on ESG materiality are out of date**

**Stock exchanges as the conduits between
issuers and investors**

Audience Q&A



The screenshot displays the GoToWebinar interface on a tablet. It features a vertical toolbar on the left with icons for chat, microphone, video, and hand raise. The main content area is divided into two panels: 'Audio' and 'Questions'. The 'Audio' panel includes a 'Sound Check' indicator, radio buttons for 'Computer audio' (selected) and 'Phone call', a 'MUTED' status, a dropdown menu for 'Internal Microphone Array (IDT...)', a volume slider, and a dropdown menu for 'Speakers / HP (IDT High Definitit...'. The 'Questions' panel contains a large text input field with the placeholder text '[Enter a question for staff]' and a 'Send' button. At the bottom, a banner displays 'Corporate Citizenship Webinar' and 'Webinar ID: 906-959-603', with the 'GoToWebinar' logo below it.

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How can companies better engage investors on their ESG performance?

Long-term value project



How to Use Your CDP Data to Engage Investors

[Watch Recorded Webinar](#)



How to engage investors on ESG performance?

[Watch Recorded Webinar](#)



Blog

Long-term Value for Investor Relations and Corporate Responsibility

Blog

ESG: A stepping stone to a direct contribution to the SDGs

Events '17
London
New York
Santiago
Singapore

Conferences H1 '17
San Francisco – CSR 3.0
London – Ethical Corp

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