Using Your CDP Response to Engage Investors: webinar slides
Introduction – Your Presenters

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CDP

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Senior Researcher
Corporate Citizenship
About Corporate Citizenship

- Global management consultancy specialising in sustainability and corporate responsibility.
- Established in 1997.
- We help companies to achieve their commitments to responsible business.
- Worked in more than 45 countries.
- Published more than 40 thought leadership papers.
- Host regular sustainability and CR events, webinars and seminars.

“Corporate Citizenship helped us to understand the issues, anticipate what’s next and realize the opportunities for growth.”
- Global VP, Sustainable Business
Questions

Muted

Ask a Question

[Image of a software interface with options to use audio through Telephone or Mic & Speakers, with the Mic & Speakers option selected and the microphone muted (MUTED) with a sound level indicator of 00000000.]

[Text: Navigating the Ratings and Rankings Landscape, a Focus on DJSI. Webinar ID: 153-817-257. GoToWebinar™]
Agenda

• How the CDP response can be used more effectively both within organisations and externally to engage investors?
  James Hulse, Head of Investor Initiatives at CDP

• How CSR and sustainability teams can work more effectively with their colleagues in investor relations – CC’s Long Term Value Project
  George Blacksell, Senior Researcher at Corporate Citizenship

• How some investors are already using CDP climate change data to inform decision making and strategy
  George Birch, Analyst, Governance and Responsible Investment, Henderson Global Investors

• Q&A
How CDP response can be used to engage investors
Understanding how to use your CDP response to engage stakeholders

November 24, 2016
James Hulse
Head of Investor Initiatives
Internal stakeholder engagement

- 88% of companies report opportunities related to the sustainable production or sourcing of forest-risk commodities.

- An increasing number of companies are using an internal price on carbon in order to decide how to allocate their resources.

- 62 companies have demonstrably “decoupled” emissions growth from revenue growth. These companies have dramatically outperformed the rest of the sample in financial terms.

- CSR teams, procurement teams, IR teams, management teams all involved
Internal stakeholder engagement

- Financial savings
- Better understanding of and collaboration between different teams
- Positive PR from top grades, improvement
- IR teams spending more time understanding CSR/sustainability teams
Ford Motor Company has set a target to reduce water use in its manufacturing operations by 30% per vehicle from 2015-2020.

Company shares best practices with its suppliers through the Partnership for a Cleaner Environment (PACE) program.

Ford’s employees are also engaged via a program that will award up to $500,000 to community service projects identified by employees.
Investor use of CDP data

- ESG rankings and analysis by service providers such as MSCI, TruCost
- Proxy voting advisory companies
- Index providers, eg Stoxx low carbon indices
- Shareholder resolutions, eg Aiming for A; 30 resolutions filed in US mentioning CDP disclosure or research
- One-on-one company engagement
- Direct investment decisions
Case study: sell side research

Morgan Stanley
Power Generation Utilities
Navigating Global Water Risk

Linking Climate Engagement to Financial Performance: An Investor’s Perspective

Eurizon Capital
Metals & Mining: a sector under water pressure
Case study: CDP sector research

Company production split by hydrocarbon

In the pipeline:
Which oil and gas companies are preparing for the future?

Report out 22 Nov
Visit cdp.net to find out more
Case study: Church Investors Group engagement

Engagement conducted over the past three years by CCLA and EIRIS for the Church Investors Group (CIG) has been shown to have helped 32 FTSE 250 companies improve their CDP Performance Grade.

FTSE 100 laggards were also identified (companies scoring lower than a C grade) and contacted each year via a letter to senior management and IR teams.

To achieve a C grade a company must disclose a significant amount of information in their response to the CDP and be able to demonstrate positive action on climate change (for example setting and meeting companywide carbon reduction targets).
Comprehensive, consistent and accurate information is vital to our ability to effectively measure companies’ exposure to climate change and management of the challenges and opportunities it presents. CDP remains a key source of information for us as we continue to build our analysis in this field.

Andrew Howard, Schroders
The CDP data helps us to determine the quality of an individual company’s management response and is a factor in our overall buy, sell and hold decisions. When necessary we make specific recommendations for change. At Aviva Investors we take this very seriously as the average length of time we hold a stock is for six years, which is longer than most companies long term strategy. At one extreme, if such a company had not even bothered to respond to the CDP, then we tell them that unless this changes, we may vote against the report and accounts at the company’s next AGM. This is proving quite a successful sanction.

Lord Sharman, Chairman, Aviva Group
CDP is a valuable partner in evaluating climate change leadership. Most important for us, the annual CDP Climate Change survey offers a wealth of quantitative and qualitative information on climate change practices. The survey creates a foundation for ranking companies on climate change leadership, and we focus on the areas of operations management, supply chain management, product development and innovation, and corporate governance. Combined with our view of investment attractiveness, what results is a diversified global equity portfolio of quality companies that contribute to a more sustainable future.

HSBC Global Asset Management
Collaboration with IR and CR: CC’s Long-Term Value Project
Investors are paying attention

Morgan Stanley and Bloomberg Survey Finds Sustainable Investing Has Entered the Mainstream

Nov 17, 2016
But, there is disconnect...
Long Term Value Project
Recommendations

We have identified two enablers to bridge the internal and external disconnects -

Collaboration between IR and CR teams:

- Create an investor ESG query register and collaborate to respond to questions raised by investors
- Develop dedicated material on ESG risks and opportunities that can be used reactively with investors
- Define metrics to articulate how sustainability adds value to the business to achieve leadership buy-in and support for defining the company's long term value creation strategy
- Work together on relevant ESG indices e.g. CDP and DJSI

Content creation by CR and IR teams:

- Build a compelling long-term value strategy that can be communicated to investors (and other stakeholder audiences), outlining how sustainability and ESG performance contributes to superior financial performance and competitive advantage
- Create and execute a proactive communication and engagement strategy including both mainstream and sustainable and responsible investors
- Report consistently on a set of robust set of ESG KPIs and metrics

The diagram on the next page presents how these enablers help companies to move toward systemic ESG integration.
Tools to bridge the disconnect

GREEN BONDS
FINANCING A SUSTAINABLE FUTURE
Key questions for companies

**Review** – has the company reviewed its largest investors?

**Assess** – has the company assessed the type of investors the company wants to attract?

**Engage** – has the company engaged with key investors to understand what ESG information they require?

**Understand** – does the company understand the risks of not disclosing ESG data and opportunity for leadership?
How investors are already using CDP data
Henderson’s Approach to Climate Change

24/11/16

George Birch - Analyst, Governance and Responsible Investment
Getting ahead of the curve on climate risks and opportunities

What is Henderson doing?

- **ESG* integration**
  - Data on company and portfolio carbon emissions integrated into ESG risk reports and potential discussion point in risk oversight meetings
  - There is limited visibility at the fund manager / team level on integration into investment decision making

- **Company engagement**
  - Climate change is a top engagement priority for the Governance & Responsible Investment Team
  - Recent company engagements have included BHP Billiton, Glencore, Microsoft, Shell and BP
  - Internal research Hub used to share company research
  - Limited visibility of fund manager engagement with portfolio companies on climate change issues

- **Knowledge sharing**
  - Governance and Responsible Investment team building knowledge across the investment floor
  - Internal seminars used to educate wider audiences

*ESG stands for Environmental, Social and Governance*
Climate change is a key investment theme

With implications for client portfolios across every time horizon

• **Regulatory impact**
  • Policy risk – Paris Ratification – Europe binding target of an at least 40% domestic reduction in greenhouse gas emissions by 2030 compared to 1990
  • Carbon pricing / air pollution regulation will have a major impact on sectors such as airlines, automobiles, electric utilities
  • Stranded assets - Impact of a carbon price on the economics of fossil fuel reserves
  • Rising costs - carbon legislation will likely result in rising operational costs and/or investment requirements for carbon intense businesses.

• **Physical impact**
  • Climate change and extreme weather events will affect agriculture and food supply, infrastructure, precipitation and the water supply in ways that are only partially understood.

• **Innovation and new technology**
  • According to Bloomberg New Energy Finance the world is now adding more capacity for renewable power each year than coal, natural gas and oil combined, and the global clean tech market enjoyed its strongest performance in years during 2014, jumping 16% to £205bn.
  • Low carbon technologies such as electric vehicles and battery storage have huge potential for disruptive innovation.

“The so-called climate contribution for conventional power stations affects our very existence”
Peter Terium CEO of RWE (April 2015)
Setting Objectives

What are investors hoping to achieve?

Example internal ESG risk report, contains old data
Henderson’s Approach

ESG Risk Report

### Top 10 Contributors to the Portfolio Carbon Footprint

<table>
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<tr>
<th>Company</th>
<th>P Wgt (%)</th>
<th>B Wgt (%)</th>
<th>Country Code</th>
<th>Sector</th>
<th>Total Apport. tCO2e</th>
<th>Reporting Status</th>
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<td>0.13</td>
<td>PRT</td>
<td>Energy</td>
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<td>Final Actual</td>
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<td>FRA</td>
<td>Energy</td>
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<td>--</td>
<td>USA</td>
<td>Consumer Discretionary</td>
<td>4,997</td>
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<td>Nestle S.A.</td>
<td>4.01</td>
<td>4.10</td>
<td>CHE</td>
<td>Consumer Staples</td>
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<td>BASF SE</td>
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<td>1.49</td>
<td>DEU</td>
<td>Materials</td>
<td>4,041</td>
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<td>Akzo Nobel N.V.</td>
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<td>ABB Ltd.</td>
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<td>CHE</td>
<td>Industrials</td>
<td>1,242</td>
<td>Final Actual</td>
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</table>

Example internal ESG risk report, contains old data
Henderson’s Approach

ESG Risk Report

Example internal ESG risk report, contains old data

*data source: Trucost*
Henderson’s Approach

ESG Risk Report

- Compulsion to continue reduce emissions based on incomplete picture of a portfolio
- Decreasing/increasing revenues, exchange rates or market cap can distort results
- No accounting for scope 3 (or 4)
- Portfolio emissions enormously swayed by any exposure to only a couple of sectors.
- Only tells you a very small part of the risk and opportunity story
- Divergence between actual and reported emissions

Difficulties are not insurmountable but we are wary

Example internal ESG risk report, contains old data
Internal Engagement

Knowledge building across the investment floor

• Good for getting PMs asking more questions

• Using data from Trucost to identify outliers

• Using CDP responses and grades as a quick test

• Ingrained expectation for companies to be managing these issues
External Engagement

Why the CDP?

- Introspective exercise
- Risk management
- Highlighting opportunities
- Cost of Capital?

Why We Engage?

- Ensure that companies are prepared for the transition
- Client demand
- Proxy for quality of management
- Seeking a comparable strong database
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Q & A
Thank you for joining!
Contact us

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