



Using Your CDP Response to Engage Investors: webinar slides

November 2016



Introduction – Your Presenters



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Corporate Citizenship

About Corporate Citizenship

- Global management consultancy specialising in sustainability and corporate responsibility.
- Established in 1997.
- Teams based in London, Melbourne, New York, San Francisco, Santiago and Singapore.
- 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

The screenshot displays a GoToWebinar interface with two main sections: 'Audio' and 'Questions'. The 'Audio' section includes 'Audio Mode' options: 'Use Telephone' (unselected) and 'Use Mic & Speakers' (selected). Below this, a microphone icon is followed by the word 'MUTED' in red, and a volume icon with the number '000000000'. A blue link for 'Audio Setup' is also present. The 'Questions' section features a large empty text area, a smaller input field with the placeholder text '[Enter a question for staff]', and a 'Send' button. At the bottom of the window, the webinar title 'NAVIGATING THE RATINGS AND RANKINGS LANDSCAPE, A FOCUS ON DJSI' and 'Webinar ID: 153-817-257' are shown, along with the 'GoToWebinar™' logo.

Muted

Ask a Question

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

Case study: Ford Motor Company

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

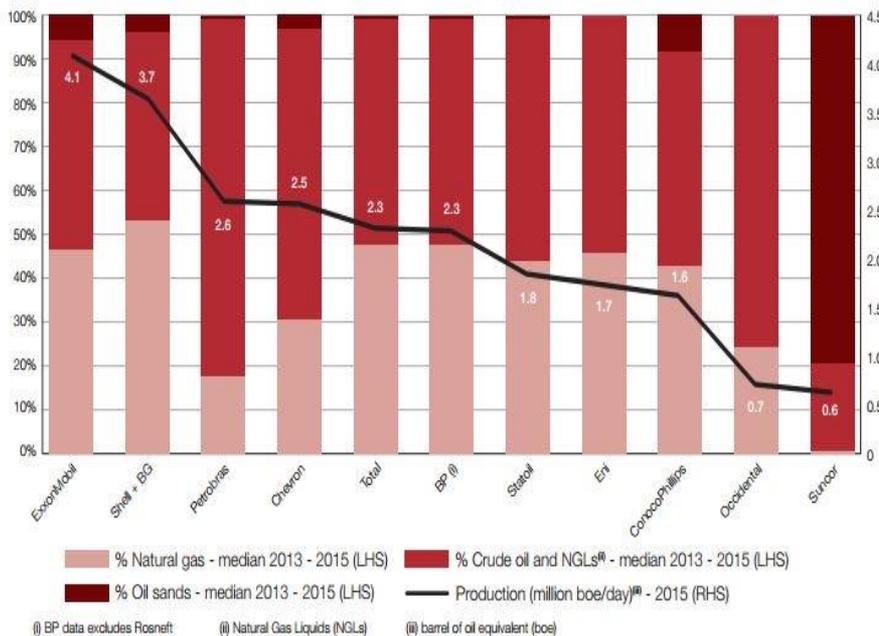
Morgan Stanley
Power Generation Utilities
Navigating Global Water Risk



**Linking Climate Engagement to
Financial Performance:
An Investor's Perspective**

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).

Investor quotes

*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

Investor quotes

*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

Investor quotes

*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*

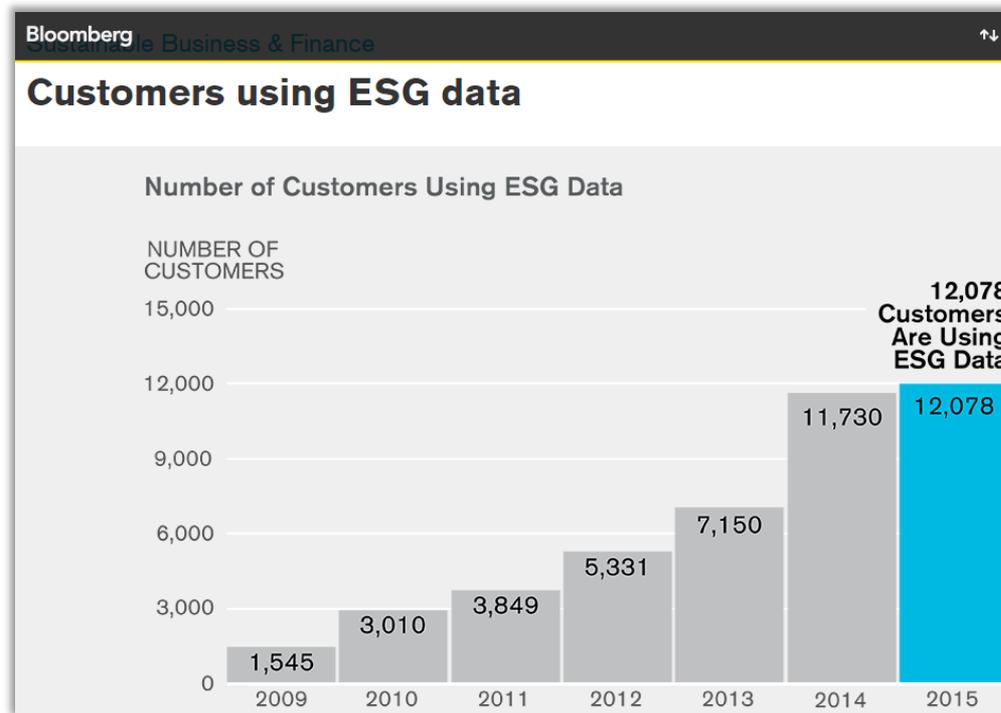
HSBC Global Asset Management

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

Recommendations

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

Collaboration between IR and CR teams:

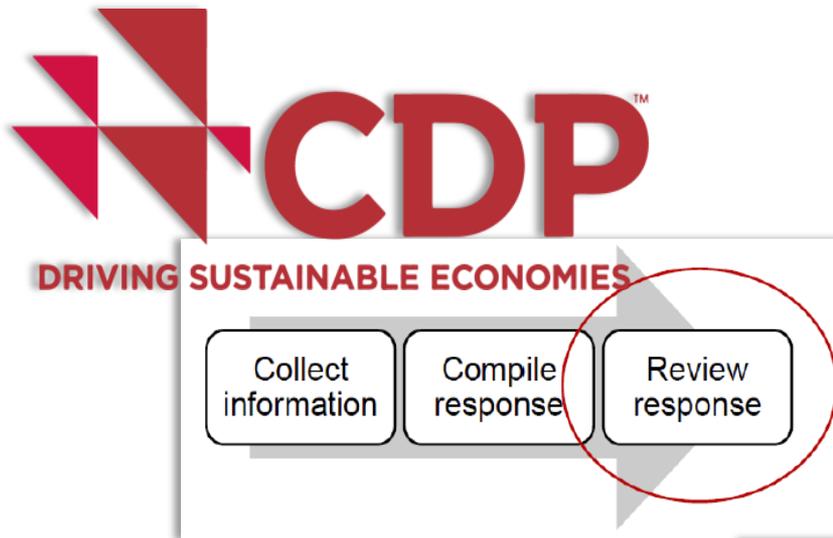
- Create an investor ESG query register and collaborate to respond to questions raised by investors
- Develop dedicated material on ESG risks and opportunities that can be used reactively with investors
- Define metrics to articulate how sustainability adds value to the business to achieve leadership 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

90 Request Demo

1) Home

BLOOMBERG ESG
ENVIRONMENTAL, SOCIAL AND GOVERNANCE DATA

Investors and companies are increasingly recognizing that environmental, social, governance and other extra-financial (ESG) information directly impact their reputation, value and performance. Investment professionals are combining data on community relations, training, workforce development, and emissions management. Bloomberg's ESG solution seamlessly integrates these ESG factors into a powerful suite of analytics provided by the BLOOMBERG PROFESSIONAL® service.

ESG
ENVIRONMENTAL
SOCIAL &
GOVERNANCE

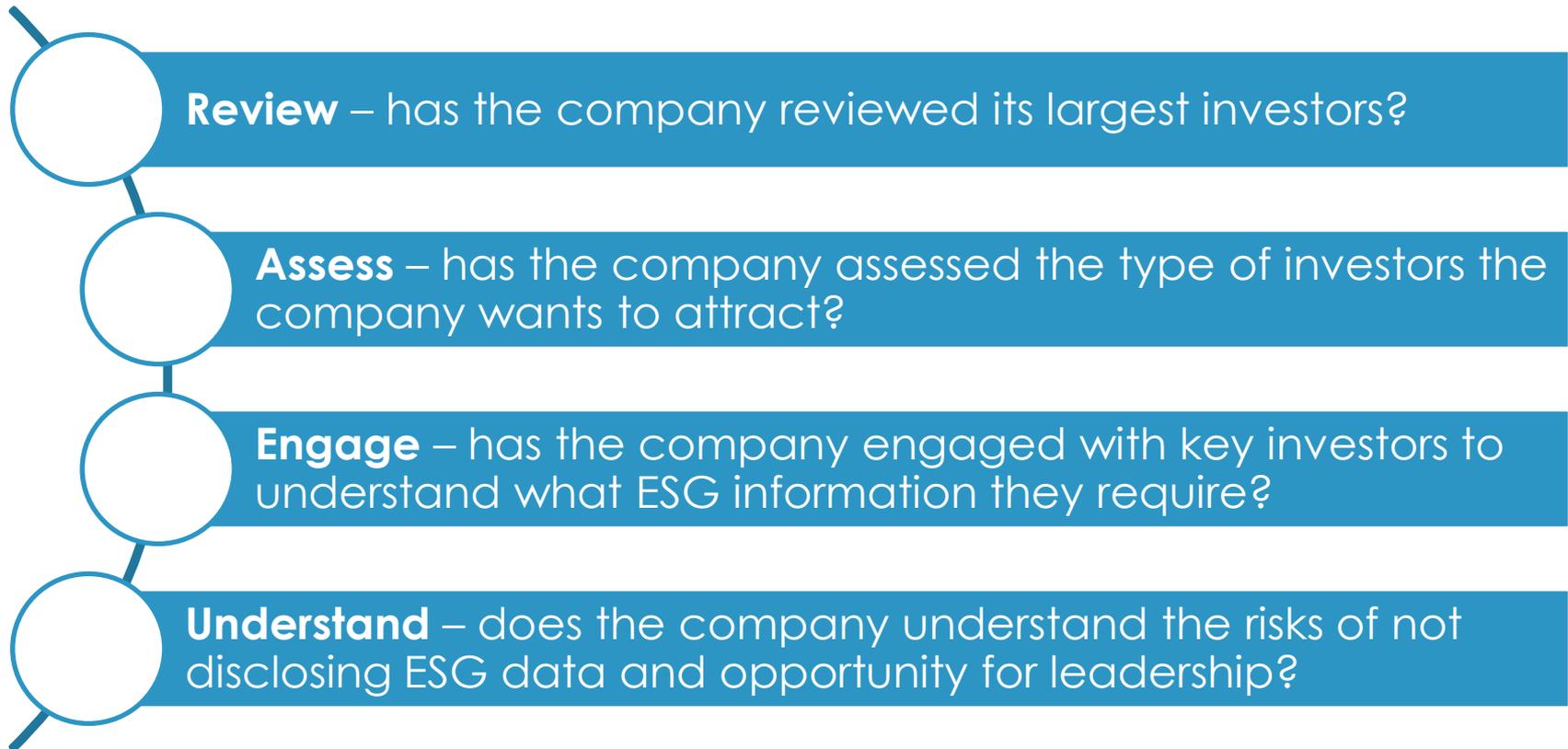
Find Out More

- 2) Overview Video
- 3) ESG Brochure
- 4) Transparency Map
- 5) Geographic Coverage Map
- 6) Functionality Map
- 7) What's New
- 8) ESG Scorecard
- 9) ESG Valuation Tool
- 10) ESG Country Risk
- 11) Sample ESG Screening
- 12) Documentation

Third Party Data

- 13) Contributors

Key questions for companies



How investors are already
using CDP data

This document is solely for the use of professionals and is not for general public distribution.
The value of an investment and the income from it can fall as well as rise and you may not get back
the amount originally invested.

Henderson's Approach to Climate Change

24/11/16

George Birch - Analyst, Governance and Responsible Investment



**KNOWLEDGE.
SHARED**

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)

Henderson's Approach

ESG Risk Report

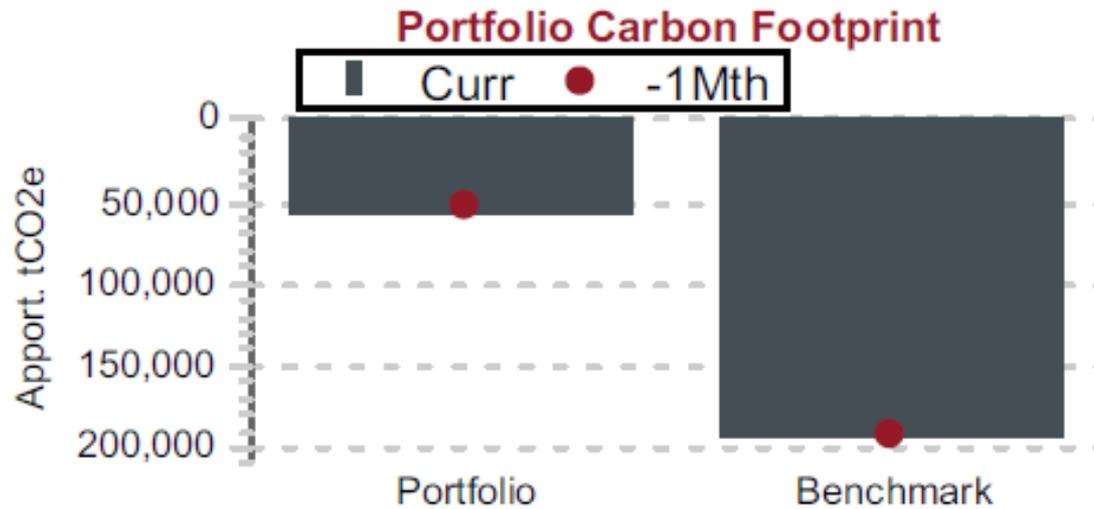
Top 10 Contributors to the Portfolio Carbon Footprint

Company	P Wgt (%)	B Wgt (%)	Country Code	Sector	Total Apport. tCO2e	Reporting Status
Galp Energia, SGPS S.A. Class...	4.23	0.13	PRT	Energy	19,296	Final Actual
Total SA	1.56	1.89	FRA	Energy	6,167	Final Actual
Autoliv Inc Shs Swedish DR	4.47	--	USA	Consumer Discretionary	4,997	Final Actual
Nestle S.A.	4.01	4.10	CHE	Consumer Staples	4,529	Final Actual
BASF SE	1.49	1.49	DEU	Materials	4,041	Final Actual
Akzo Nobel N.V.	1.23	0.29	NLD	Materials	2,446	Final Actual
Continental AG	1.45	0.38	DEU	Consumer Discretionary	1,873	Final Actual
Technip SA	1.57	0.14	FRA	Energy	1,804	Final Actual
Tarkett SA	1.28	--	FRA	Industrials	1,399	Actual
ABB Ltd.	1.73	0.72	CHE	Industrials	1,242	Final Actual

Example internal ESG risk report,
contains old data

Henderson's Approach

ESG Risk Report



**data source: Trucost*

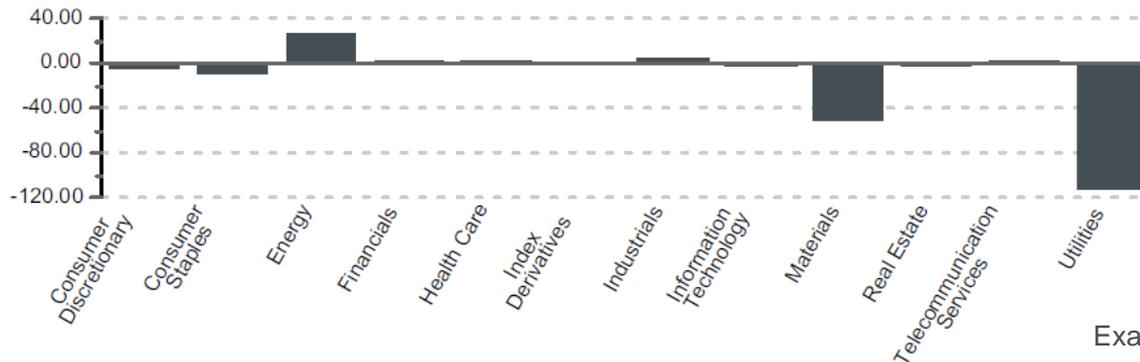
Example internal ESG risk report,
contains old data

Henderson's Approach

ESG Risk Report

Carbon Allocation Effect by Sector Relative to Benchmark

Average tCO2e Emitted per \$1m (Portfolio)	91.90	Difference from Sector Allocation	-140.27
Average tCO2e Emitted per \$1m (Benchmark)	311.09	Difference from Stock Selection	-78.92
Difference	-219.19	Combined Effect	-219.19



Example internal ESG risk report, contains old data

Difficulties are not insurmountable but we are wary

- 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

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!

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