Georgeson

KNOWING WHERE YOUR INVESTORS STAND ON ESG IS MORE IMPORTANT NOW THAN EVER

EXECUTIVE SUMMARY OF KEY FINDINGS

In the span of a few years, much has changed regarding the ESG landscape, both from the investor and issuer perspectives.

While not long ago many companies considered it "nice to have" at best, today's investors are increasingly focused on the ESG risks and opportunities of the companies in which they invest, and addressing ESG, regardless of a company's geography, industry or size, is no longer optional.

During this time, we have witnessed a rapid proliferation of ESG reporting standards and frameworks, data providers, aggregators and ESG ratings, as well as notable acquisitions within this space.

In addition, major institutional investors continue to build out ESG-dedicated positions and their own proprietary ESG platforms. This surge of activity and the continually changing ESG environment demonstrate how complex and challenging it can be for companies to navigate.

ESG rating firm acquisition activity 2019 - 2020

MAJORITY STAKE NOVEMBER 2020	Deutsche Börse Group	ISS
ACQUISITION OCTOBER 2020	FactSet	Truvalue Labs
ACQUISITION JULY 2020	Morningstar	Sustainalytics
ACQUISITION NOVEMBER 2019	S&P Global	RobecoSAM – We are Sustainability Investing.
MAJORITY STAKE APRIL 2019	Moody's	vigeo eiris

CONTENTS

29 countries covered

ESG policies and practices of **400 investors** analyzed

321 investors investors show evidence of ESG integration

A dedicated ESG team gathered and analyzed **46 ESG variables**

Over 90% of investors examined in our global research disclosed using and integrating ESG considerations in their investment/stewardship activities.

As the ESG ecosystem evolves, so do investor expectations for current, effective ESG data regarding the companies they invest in, or are considering investing in. Accordingly, companies must adapt their ESG reporting to align with investor-favored frameworks and standards to meet investors' initial investment selection criteria and continuing stewardship expectations. Furthermore, likely exponential growth of regulatory requirements in the coming months and years – both in Europe (with the EU Action Plan on Sustainable Finance), and in the United States (with the focus brought by the Biden administration) – is expected to increase investors' demand for ESG information.

Though there are at least 600 ESG data products provided between more than 150 organizations, we found the largest institutional investors in the world tend to focus on only 39 unique ESG data providers. As an issuer, it's imperative to understand your top investors' data usage practices, ESG integration approach and disclosure expectations.

With respect to reporting frameworks, our research identified five primary investor-favored organizations, such as the SASB standards and the CDP global disclosure system. This number narrows further still based on geography. Accordingly, by understanding its specific investors' priorities, a company can streamline its identification of material ESG topics and development of ESG reporting.

This Report summarizes the findings from our research, including data we have collected on the state of investors' ESG integration practices, illustrating the growing importance investors are placing on companies' ESG practices globally. Our data collection process included in depth research of 400 of the largest global institutional asset managers and owners globally and reflects information as of year-end 2020.

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METHODOLOGY

Our research leveraged our proprietary institutional investor database and involved two lenses of analysis: (1) the daily interactions we and our clients have with these investors as part of the engagement process and (2) investors' 2020 disclosures.

Our database is continuously updated as new information becomes available, both to add information on new investors and revise information on those currently within our coverage Universe. The database is comprehensively reviewed annually for each investor covered.

Together with the quantitative approach covered by our database, we thoroughly analyzed how institutional investors integrate ESG considerations into their responsible investment policies and practices, and the most recurrent strategies they put in place (e.g., active ownership, investment exclusions or best-in-class approaches). The results that follow illustrate how investor focus on companies' ESG practices continues to grow, which in turn illustrates how important it is for companies to engage with investors, and recognize, prepare for, and address their concerns.

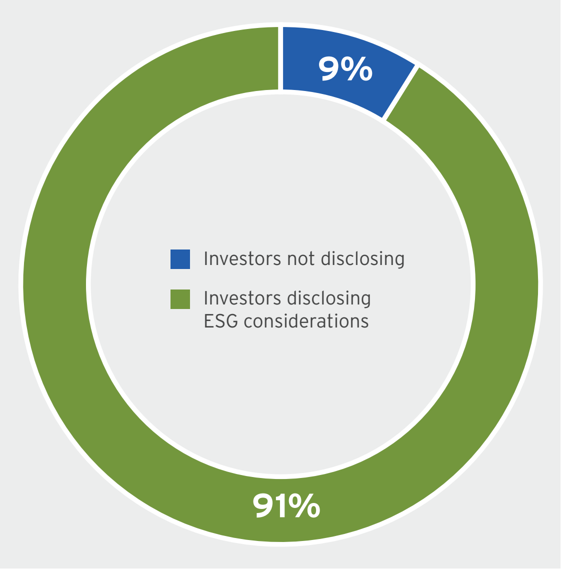
After a first level of analysis, we excluded 49 entities. These investors were classified as "not active" in the responsible investment area.

Our analysis then focused on the remaining 351 institutional investors (the "target investors").

In our second level of analysis, we found that 321 of the 351 target investors disclosed ESG considerations.

This translates to a 91% disclosure rate, a clear indicator of the importance investors place on ESG risks and opportunities in their capital allocation or stewardship activities.

TARGET INVESTORS DISCLOSING ESG CONSIDERATIONS



TARGET INVESTORS REVIEWED | BASED ON COUNTRY OF HEADQUARTERS LOCATION

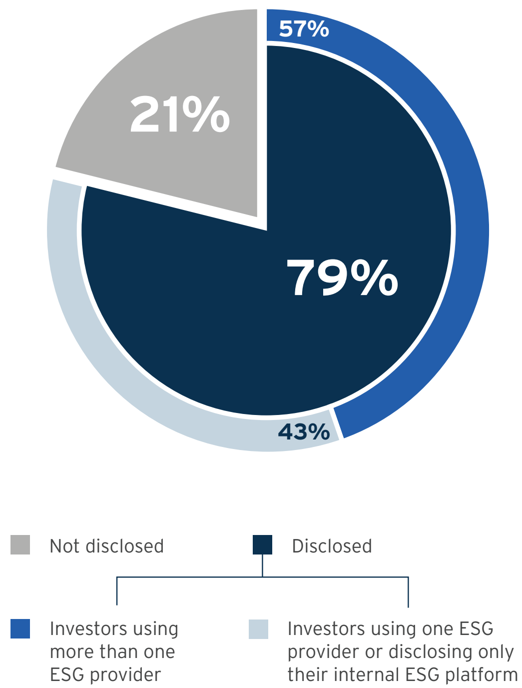
ESG DATA PROVIDER USAGE

While the number of firms that provide ESG data to corporations and asset managers is vast – at least 600 products from more than 150 organizations[1] – the number actually relied upon by the largest institutional investors globally is relatively contained:

We identified 39 unique ESG data providers across the target investors. The data and reports coming from these ESG firms help investors implement their responsible investment strategies and make more informed decisions. For companies to focus their time and resources effectively, it's crucial to understand their top investors' data usage practices, approach to ESG integration and what these investors expect from issuers in terms of sustainability practices and disclosures.

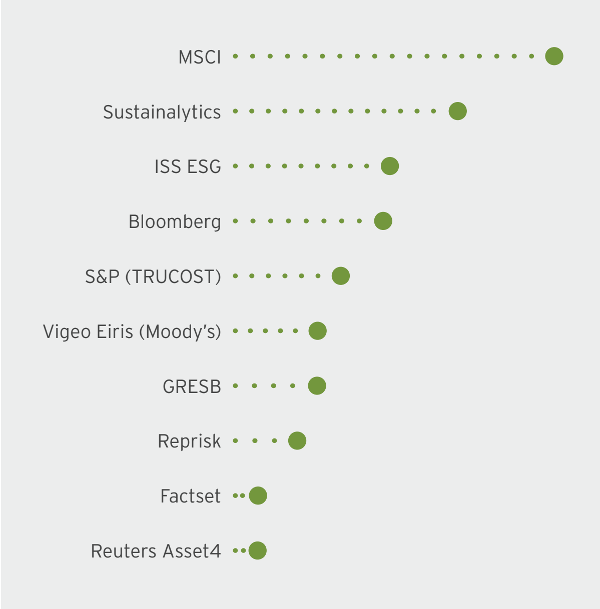
Our analysis found that 79% of the target investors do have at least one ESG external provider subscription to help inform investment and/or stewardship decisions. Further, 57% of that subset of investors use more than one ESG data provider.[2]

ESG DATA PROVIDERS



Of the 39 primary ESG data providers that institutional investors disclosed using, the following chart illustrates the relative prevalence of the 10 providers most frequently cited.

TOP 10 ESG DATA PROVIDERS



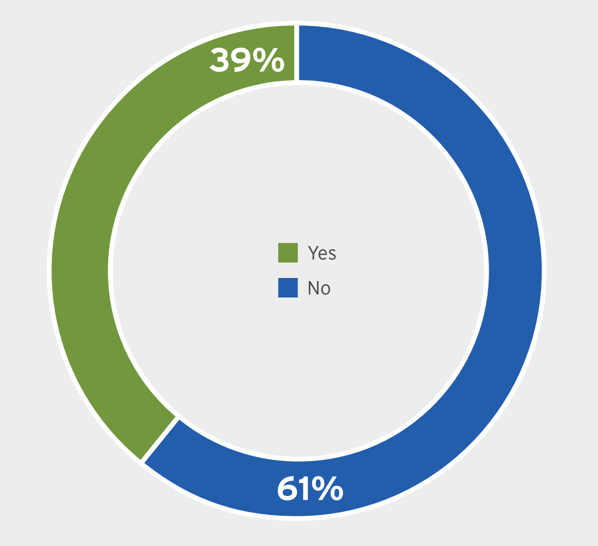
1 ESG Ratings and Rankings All Over the Map (truvaluelabs.com)

2 This is likely an underrepresentation of the percentage of target investors relying upon multiple providers, as some investors disclosed only using their internal ESG platform, which could in turn rely on multiple undisclosed data feeds.

This data shows relative convergence among investors in terms of preferred providers, however how different investors use this data varies greatly, both among investors and within investment teams across the same investor. While MSCI (a global provider of multi-asset portfolio tools), and Sustainalytics, (a global provider of ESG and corporate governance research and ratings), are the most used, we have noted that after the acquisitions of Trucost (primarily focused on climate analytics) and RobecoSAM (well known for its annual corporate sustainability assessment, or CSA, evaluation process), S&P Global is gaining popularity. The same can be said for Vigeo Eiris (with ESG indices published on the Bloomberg and Datastream platforms) following Moody's acquisition of a majority stake in the firm in April 2019.

While ESG scores may be relevant in some cases, such as for index construction, investors are increasingly building out ESG-dedicated teams and developing their own proprietary platforms with bespoke rating systems so that scoring aligns with the engagement priorities, voting guidelines and sustainability convictions of the institution (e.g., Legal & General Investment Managers ESG scoring system and State Street Global Advisors internal R-Factor platform are two prominent examples). This is likely a trend that will continue to grow, further underscoring the need for engagement with investors to understand their priorities and their ESG integration processes.

PREVALENCE OF PROPRIETARY ESG PLATFORMS AMONG TARGET INVESTORS



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ESG STANDARDS AND FRAMEWORKS

Within the last two years, there has been notable acceleration of investors' and proxy advisors' revision of their voting guidelines to codify ESG reporting expectations.

BlackRock has received significant attention for its expectations, which we are seeing rapidly translate to voting decisions in the current proxy season. Many other investors are taking action as well. Our research identified 12 ESG reporting standards and frameworks favored by the target investors we analyzed, with the five summarized below being the most often cited.

A company's investor base and geographic location of domicile further narrows which frameworks are most relevant, underscoring the need to understand key investors' expectations in the early stages of sustainability report development.

TOP 5/12
ESG reporting frameworks and standards
favored by the investors

CDP

CDP – formerly the Carbon Disclosure Project

CDP runs a global disclosure system that enables companies, cities, states and regions to measure and manage their environmental impacts, specifically climate change, deforestation and water security. CDP aims to motivate investors, companies and cities to work towards a sustainable economy using its database of self-reported environmental data. CDP is often interchangeably viewed as both a rating organization and framework.

Companies can make their CDP reporting private or public. While private reporting provides issuers the ability to test the waters, investors ultimately seek public reporting.

GRI

GRI – Global Reporting Initiative

GRI provides disclosure standards for companies to communicate their impact on key sustainability issues such as climate change, human rights, governance and social well-being. GRI uses a modular approach of three universal standards applicable to all companies and three topic-specific standards – economic, environmental and social – that companies can choose from to report on. The GRI Sustainability Reporting Standards were developed with multi-stakeholder contributions, and accordingly support broad disclosures on organizational impacts towards sustainable development.

IIRC

IIRC – International Integrated Reporting Council

IIRC is a global coalition of regulators, investors, companies, standard setters, the accounting profession and non-governmental organizations. It's Integrated Reporting Framework is structured around six capitals (financial, manufactured, intellectual, human, social and relationship and natural) intended to capture a full range of factors that can materially affect a company's ability to create value over short-, medium- and long-term time horizons.

IIRC recently completed its merger with SASB, now operating together under the umbrella of the Value Reporting Foundation. Both the IIRC's Integrated Reporting Framework and the SASB standards (discussed below) continue to exist as resources that can be used alone or in combination. The IR Framework provides principles-based guidance for reporting structure and content whereas SASB standards address industry-specific disclosure topics. While work is ongoing to further align SASB standards and the IR Framework, The Value Reporting Foundation has indicated there will be no changes to the SASB standards or how they are set.

SASB

SASB – Sustainability Accounting Standards Board

SASB has developed a set of 77 industry-specific standards, which are captured graphically through its Materiality Map. They are available for individual sector download through SASB's website. The SASB standards were developed specifically for use by the financial markets to elicit decision-useful financially material information. Accordingly, its standards focus on sustainability risks and opportunities viewed as reasonably likely to impact financial performance and enterprise value.

TCFD

TCFD – Task Force on Climate-related Financial Disclosures

The FSB (Financial Stability Board) Task Force on Climate-related Financial Disclosures Framework, as its name suggests, was developed to facilitate consistent climate-related financial risk disclosures to provide information to investors, lenders, insurers and other financial market participates. TCFD's recommendations are structured to elicit information regarding a company's approach to climate-related risks and opportunities across four core pillars: governance, strategy, risk management and metrics and targets. While the overall TCFD framework is industry-agnostic, supplemental guidance is provided for certain high-risk sectors, including financial services, energy, transportation, materials and buildings and agriculture, food and forest products.

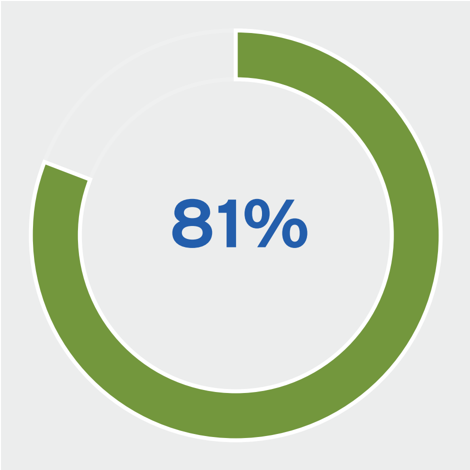
ESG COLLABORATIVE ENGAGEMENT CONTINUES TO RISE

With hundreds of investors participating in collaborative initiatives such as Climate Action 100+, Ceres and the Transition Pathways Initiative, ESG collaborative engagement is on the rise.

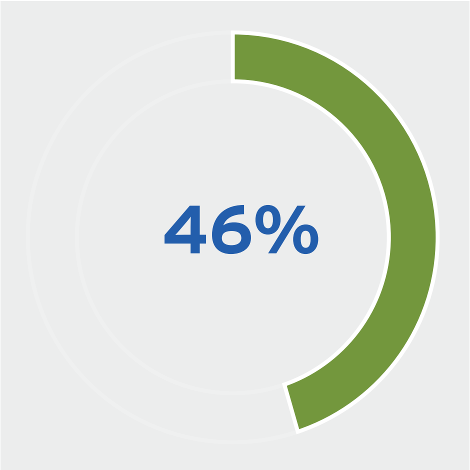
A review of the target investors' ESG initiatives reveals that ESG has solidly transitioned to a mainstream investment issue, and that collaborative engagements involving multiple parties are quickly gaining momentum.

- 80% of the target investors are UN PRI signatories, committed to following the six Principles for Responsible Investment and PRI-required annual reporting, illustrating that the vast majority of prominent institutions have integrated ESG into their investment and stewardship activities.[3]
- As popularity of initiatives like Climate Action 100+, TPI and involvement with Ceres continue to grow, companies will increasingly find that their investors are collaborating in their engagements on key issues like climate change and aligning with the United Nations Sustainability Development Goals.

UNPRI SIGNATORIES*



CLIMATE ACTION 100+ SIGNATORIES*



*Percentages are of the target investors analyzed.

> Companies will increasingly find that their investors are collaborating in their engagements on key issues like climate change and aligning with the United Nations Sustainability Development Goals.

[3] https://www.unpri.org/pri-blog/pris-new-reporting-framework-driving-positive-change-in-responsible-investment/6737.article

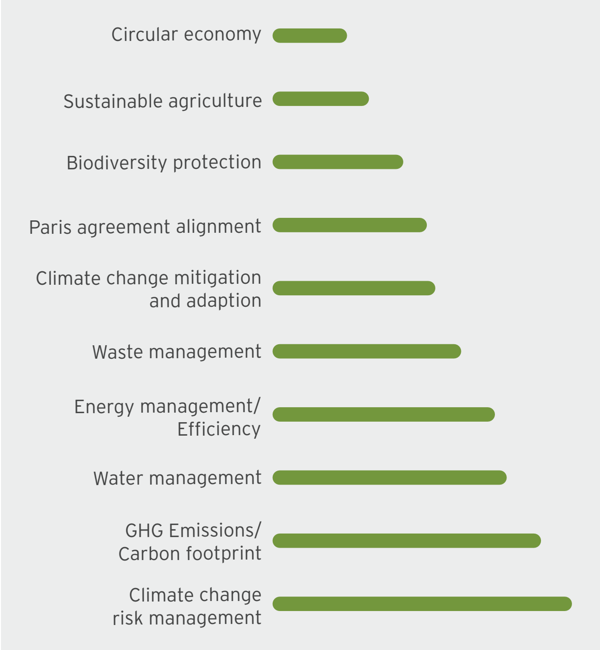
KEY E&S TOPICS

To delve into the key thematic topics investors often cite in their stewardship reporting, our research analyzed the frequency with which the target investors cited specific environmental and social topics as relevant to their evaluation of issuers.

Not surprisingly, climate change topped the list in terms of environmental topics, and we expect Paris Agreement Alignment and climate change mitigation and adaptation strategies to increase in prominence over the course of 2021, mainly due to new or anticipated regulations, such as the European so-called taxonomy and SEC rulemaking regarding climate change expected in the second half of 2021.

Beyond climate change, we identified GHG emissions, effective water management and energy management and efficiency as the most common environmental topics investors consider in evaluating companies' ESG practices. With regard to social issues, notwithstanding investors' vocal focus on employee health and safety and DE&I particularly in the second half of 2020, human rights issues claimed the number one spot in 2020.

ENVIRONMENTAL TOPICS



Beyond human rights and child labor considerations, key social topics integrated in investor policies include diversity, inclusion and gender equality both in the boardroom and across the broader workforce; and more broadly, all issues linked to human capital management.

SOCIAL TOPICS

CONCLUSION

With the 2021 proxy season now largely concluded, a clear and monumental shift in the relevance of ESG issues in influencing investor voting decisions across markets is apparent, and it is more important now than ever to be aware of investor ESG concerns and priorities.

Accordingly, companies need to act promptly and decisively to progress management and disclosure of key ESG risks and opportunities.

Reach out to your regular Georgeson contact or any of our ESG team members on the following page, if you are interested in understanding the ESG priorities and preferences of your specific institutional holders. Regardless of where your company may currently stand with respect to analysis and integration of ESG risks and opportunities, we can help you implement or further your ESG agenda.

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