

# ESG Factors, Rating Firms, and Third-Party Validation

NIRI Chicago

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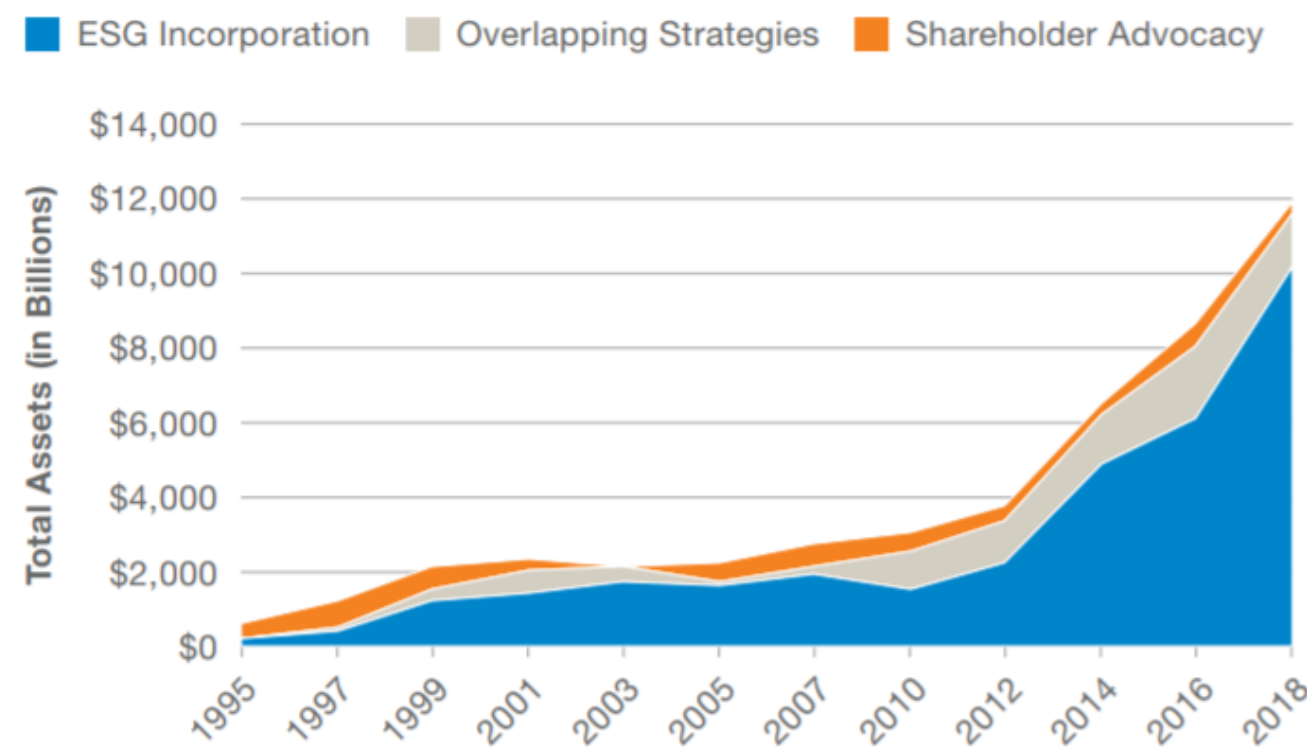
an ERM Group company

# Trends in ESG Investing

Responsible investment grew 38% between 2016 and 2018. ESG Incorporation has grown from approximately \$2T in 2012 to roughly \$10T in 2018.

- ESG Incorporation = Inclusion of ESG risks and opportunities in determinations for asset management (Passive)
- Shareholder Resolutions = A method for proposing changes to a company as voted by fellow shareholders during the company's annual meeting; also referred to as Proxy Resolutions (Active)
- Overlapping strategies = combination of ESG Incorporation and Shareholder Resolutions

FIGURE A  
Sustainable and Responsible Investing in the United States  
1995–2018



SOURCE: US SIF Foundation.

# Prominent ESG Organizations

Some organizations simply provide frameworks for disclosure and do not evaluate companies



Some passively pull information from sustainability reports, aggregate data, and add ratings



Some purchase data and ratings from other raters and add rankings

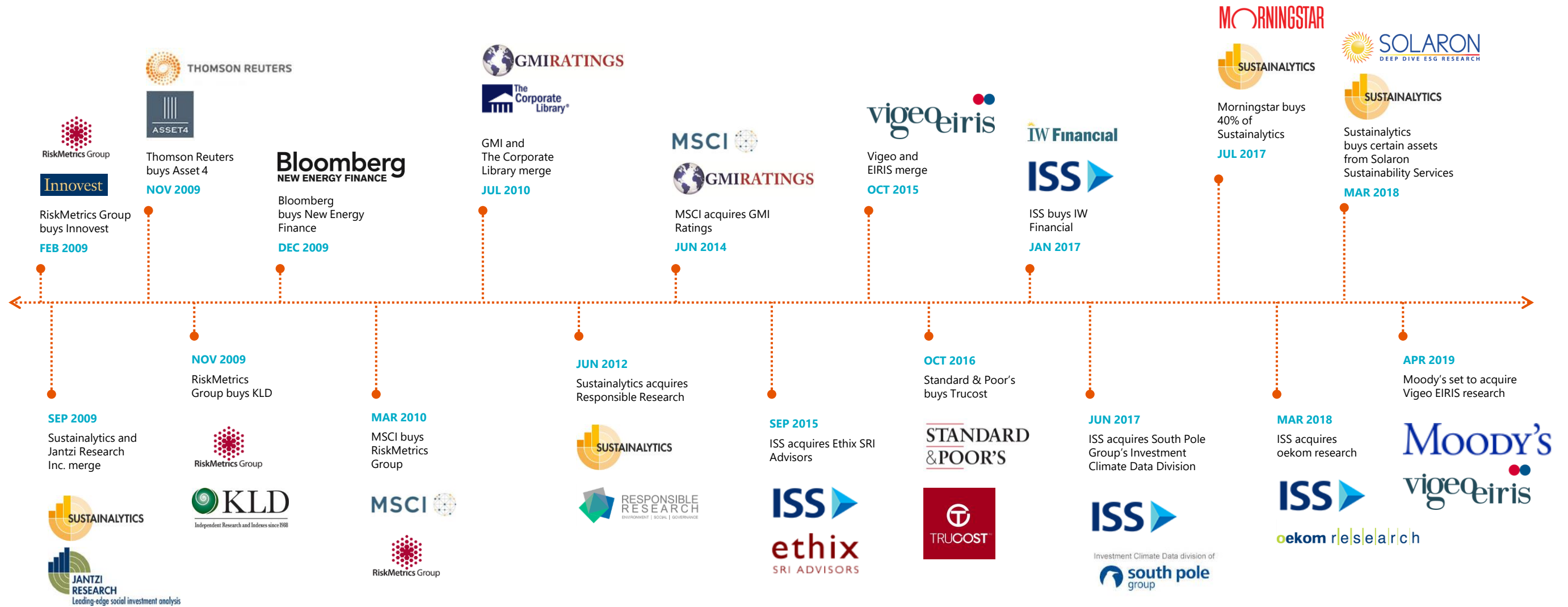


Some actively request information, aggregate data, and add ratings



# ESG Merger & Acquisition Activity

Significant interest demonstrated by traditional investment research firms and ESG specialty shops.



# ESG data on Bloomberg

ESG functions within the terminal are included in the standard Bloomberg subscription.

NKE US Equity		96) Actions		97) Output		98) Settings		Financial Analysis	
ADJ NIKE Inc						Periods		Currency USD	
1) Key Stats		2) I/S		3) B/S		4) C/F		5) Ratios	
6) Segments		7) Addl		8) ESG		9) Custom			
11) Overview		12) Environmental		13) Social		14) Governance		15) Exec & Dir Comp	
16) ESG Ratios		17) CDP							
In Millions of USD except Per Share		FY 2011		FY 2012		FY 2013		FY 2014	
12 Months Ending		05/31/2011		05/31/2012		05/31/2013		05/31/2014	
		05/31/2015		05/31/2016					
ESG Disclosure Score		56.46		53.59		51.67		44.98	
Environmental									
Environmental Disclosure Score		55.21		48.96		51.04		39.58	
Total GHG Emissions		84.7		110.7		146.9		185.4	
Total Energy Consumption		4,231.9		4,421.7		4,093.3		4,125.8	
Water Consumption		1,230.3		-		-		-	
Hazardous Waste		-		-		-		-	
Total Waste		1.2		1.5		1.8		3.4	
Social									
Social Disclosure Score		49.12		49.12		43.86		38.60	
Number of Employees		38,000		44,000		48,000		51,263	
% Employees Unionized		0.00		0.00		0.00		0.00	
% Women in Workforce		50.00		50.00		48.00		49.00	
% Women in Mgt		40.40		41.00		35.00		33.00	
% Minorities in Workforce		49.00		48.00		48.00		-	
Governance									
Governance Disclosure Score		66.07		66.07		60.71		60.71	
Size of the Board		14		12		12		13	
Indep Directors		11		9		9		10	
% Indep Directors		78.57		75.00		75.00		76.92	
Board Duration (Years)		1		1		1		1	
# Board Meetings		5		5		5		5	
Board Mtg Attendance		74.64		75.00		75.00		74.23	
								73.92	
								75.00	

# Action Items

## How to respond as an investor relations professional

### 1) **Review** your current ESG ratings and scores

- Log onto Bloomberg – download your ESG data and review available ratings (RobecoSAM/DJSI, ISS Governance, and Sustainalytics)
- Request your latest reports from MSCI and Sustainalytics
- Request your login information to your ISS online portal (if you don't already have it)

### 2) Engage with ratings firms to **request corrections** and **discuss methodologies**

- Fix errors by citing publicly available information
- Determine areas where the rating may not be reflective of your performance

### 3) Determine the **relative level of importance** of each rating to you/your leadership

### 4) **Collaborate** across your company to build your ESG management and disclosure practices

### 5) Strike a **balance** between ESG risks and ESG opportunities

- Integrate both types of factors into your overall business strategy for long-term value creation and protection

# Thank You

For more information on BrownFlynn's services,  
please visit [www.brownflynn.com](http://www.brownflynn.com) or contact us below.

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