ESG expectations of institutional investors

July 14, 2021

Environmental, Social and (Corporate) Governance (ESG) considerations have progressed from optional to essential factors in contributing to business success both nationally and worldwide. As ESG metrics continue to gain prominence as key considerations for Canadian companies, "socially responsible" investors are placing more emphasis on how companies are implementing ESG when making investment decisions.

BLG recently hosted the second in its 2021 Environmental Social Governance Thought Leadership Webinar Series, “ESG Expectations of Institutional Investors.” Participants discussed what companies can do from an ESG perspective to appear attractive to institutional and other investors, reporting frameworks companies can use to disclose effectively ESG practices, and why it is important for companies to share their ESG story in an authentic way. The panellists were:

- Melanie Adams, VP & Head, Corporate Governance & Responsible Investment, RBC Global Asset Management
- Michelle Edkins, Managing Director, BlackRock Investment Stewardship
- Ravi Latour, Partner, BLG

BLG partner Lynn McGrade moderated the discussion.

How can companies effectively disclose their ESG policies?

- According to RBC’s Melanie Adams, companies should first think about whether their ESG disclosure target market specifically includes investors, or all stakeholders (which includes customers and employees).
- Two commonly-used disclosure frameworks are the Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI):
    - “SASB is more geared toward investors,” Adams explains. “It looks at reporting on ESG metrics and how they tie directly into the company’s financial statements. It is very helpful for institutional investors to look at SASB.”

    - "GRI targets a broader group of stakeholders. If you're a company and want to make sure you're targeting your employees and customers, you would do a broader report and could use the GRI framework."
- Companies should also keep in mind that they don't need to report on every single metric, Adams adds. For example, a bank would want to share what cybersecurity policies and procedures it has in place, whereas a beverage company should focus more on its water usage.
- The Task Force on Climate-Related Financial Disclosures (TCFD) guidelines are material for every company, says Adams, and those metrics should be included in ESG reports:
    - "For companies struggling with this, it doesn't have to be a lengthy disclosure report. As investors we don't have time read really lengthy reports. We just want to hit what is material, what matters to your company. If you're able to show progress year over year on metrics, that is extremely valuable for us. But we also want to know where you're going – what your targets and goals are, and where would you like to get to so that we can understand what the future looks like for you."

What is the best way to share your company's ESG story?

- BLG partner Ravi Latour says before companies report on ESG, they must have a well-thought-out plan in place:
    - "Successful companies are ones that can enunciate a clear strategy and show the public they're not just ticking off a box by doing a sustainability report. Really think through which report is best for you (and) will help you tell that story that shows company management gets how important this is."
- Increasing public focus on ESG brings with it closer examination of companies – and investors – on what they are doing on the sustainability front, says BlackRock's Michelle Edkins. The way to get ahead of this, she says, is for companies to take control of their story:
    - **"**Companies must tell their best story through their own disclosures, and make sure they're being representative of the reality. As investors, we get approached from a lot of different angles with people who believe they have an inside track on what companies are doing. There's endless research and data sources that may be telling the story differently from how you'd like it to be told."

Watch the webinar below to learn more about the increased focus on ESG from private equity and venture capital firms, what else to keep in mind when creating an ESG strategy for your company, and what RBC Global Asset Management and BlackRock Investment Stewardship look for on the ESG front when deciding which companies to recommend to clients.

By

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