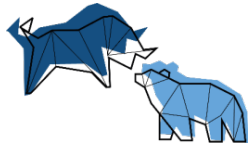


ESG ratings in Germany

Survey among investor relations & institutional investors

Wien, 24. Juni 2019

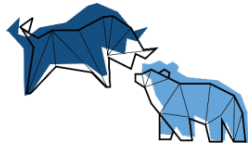
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Why this study?



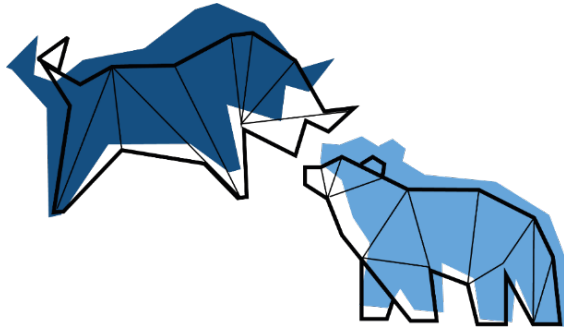
- HBS “First Evidence on Materiality” (2015): Firms with good sustainability performance significantly outperform those with poor performance.
- Friede, Busch & Bassen (2015): “ESG pays” – good social performance correlates with good company performance.
- Larry Fink, BlackRock: “Sustainable Investing will be a core component of investing – we are only in the early stages”.
- Global Sustainable Investment Alliance: AuM under ESG criteria >\$23tr (+60% compared to 2012).
- ESG funds launched globally ~ 372 (2017) vs. ~ 140 (2012).
- EPIC Embankment Project for Inclusive Capitalism (founded 2018 by BlackRock, Vanguard): push companies to disclose “hard-to-quantify” items.



DIRK survey on ESG ratings in Germany – background and approach

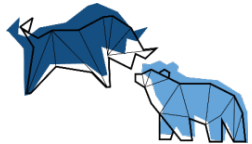


- Investor Relations Officers (IROs) experience continuous increase in demand to comment on ESG evaluations and answer ESG questionnaires.
- Growing amount of IROs' time needed for gathering data and checking evaluation results, while value not always obvious.
- Objective of survey conducted by DIRK, DVFA and Schlange & Co. ("S&C"): Evaluate the opinion of IROs and institutional investors ("II") on ESG rating agencies and the value of rating results.
- Survey carried out 3 weeks in September 2018 with sample of approx. 1.200 IROs, 2.700 IIs and 8 ESG rating agencies.



Executive summary

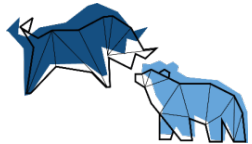
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Key findings (1/2)



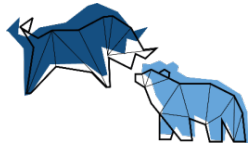
- Response rate high with 167 IROs and 94 IIs; Number of “Don’t know” answers regarding ESG rating agencies’ evaluation approach was high.
- Half of IROs and IIs believe that sustainability is of high importance for a company’s overall performance and they expect this to further gain in importance.
- The majority of respondents believes that sustainability produces tangible value and increases operational efficiency.
- The most important criteria for evaluating a company’s sustainability performance are meaningful KPIs and a resilient strategy with concrete objectives.
- The majority of IROs prefers in-person discussion as a communications channel, while most investors prefer communication via print or electronic media.
- IROs mostly refer to missing information as reason for poor ESG communication, while most IIs believe that this is due to IROs lacking interest or poor preparation.



Key findings (2/2)



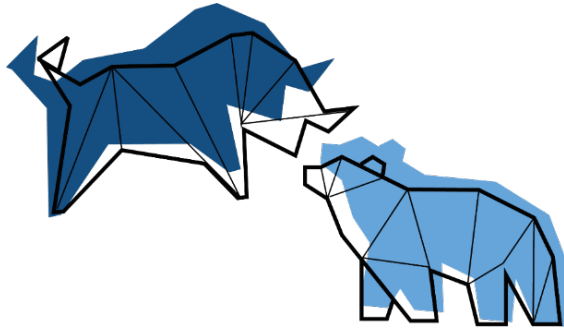
- Many IIs and ESG rating agencies believe that only a minority of IROs is sufficiently aware about sustainability and the company's ESG performance; IROs don't seem to always have a clear management mandate to report transparently.
- MSCI and ISS-oekom appear to be the most relevant rating agencies; their research is commented by most IROs and is used by the highest number of IIs.
- IROs rank RobecoSAM highest followed by ISS-oekom and CDP based on the criteria: quality, added value, coverage, presentation, interaction and innovation.
- IIs rank MSCI the highest followed by ISS-oekom and Sustainalytics based on the same criteria.
- The role of CDP as both - rating agency *and* data supplier to other rating agencies - is not sufficiently understood.



Conclusion

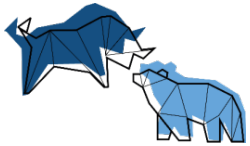


- Given the increasing importance of ESG in capital markets an active approach towards ESG ratings can only be encouraged; companies hesitating to do so run the risk of becoming excluded as an eligible name for institutional investors.
- Therefore, it is strongly recommended that IROs become more familiar with their own company's sustainability performance, with IIs' approach with regard to ESG in the asset allocation process, and with the work of ESG rating agencies.
- The added value for companies is increasingly being demonstrated by lower financing cost and/ or increased operational performance.



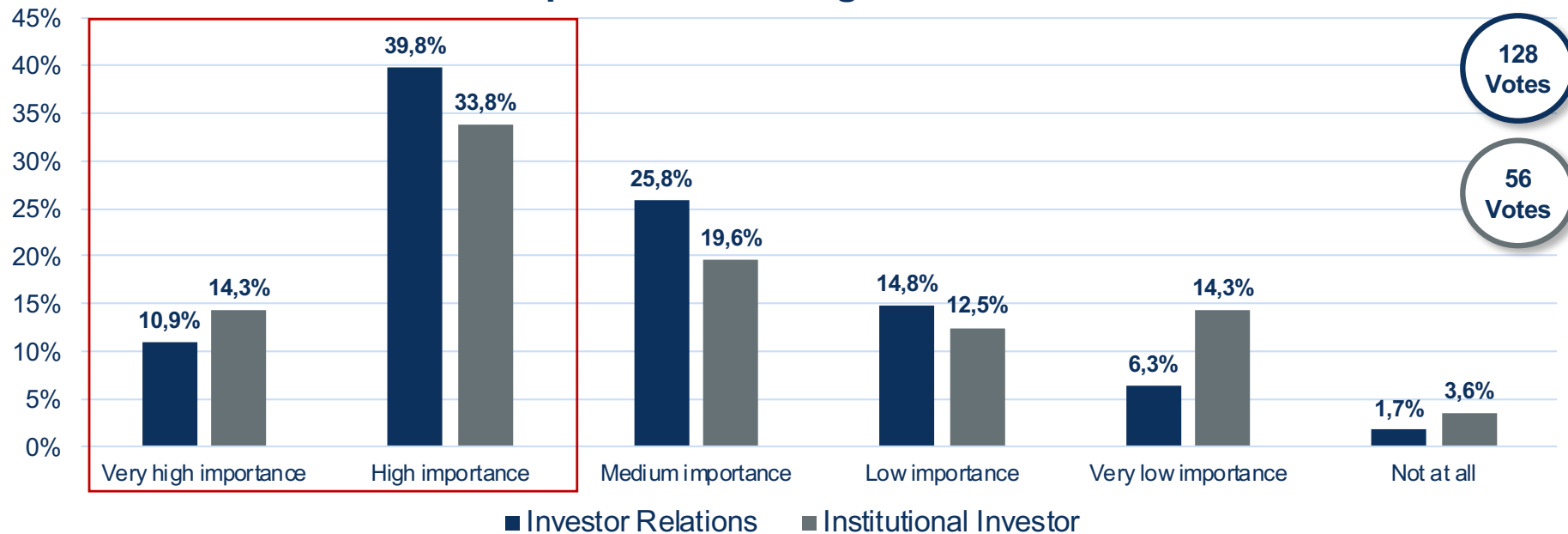
The overall importance of sustainability

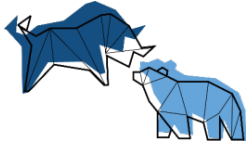
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Most respondents consider sustainability of high importance with regard to companies' performance

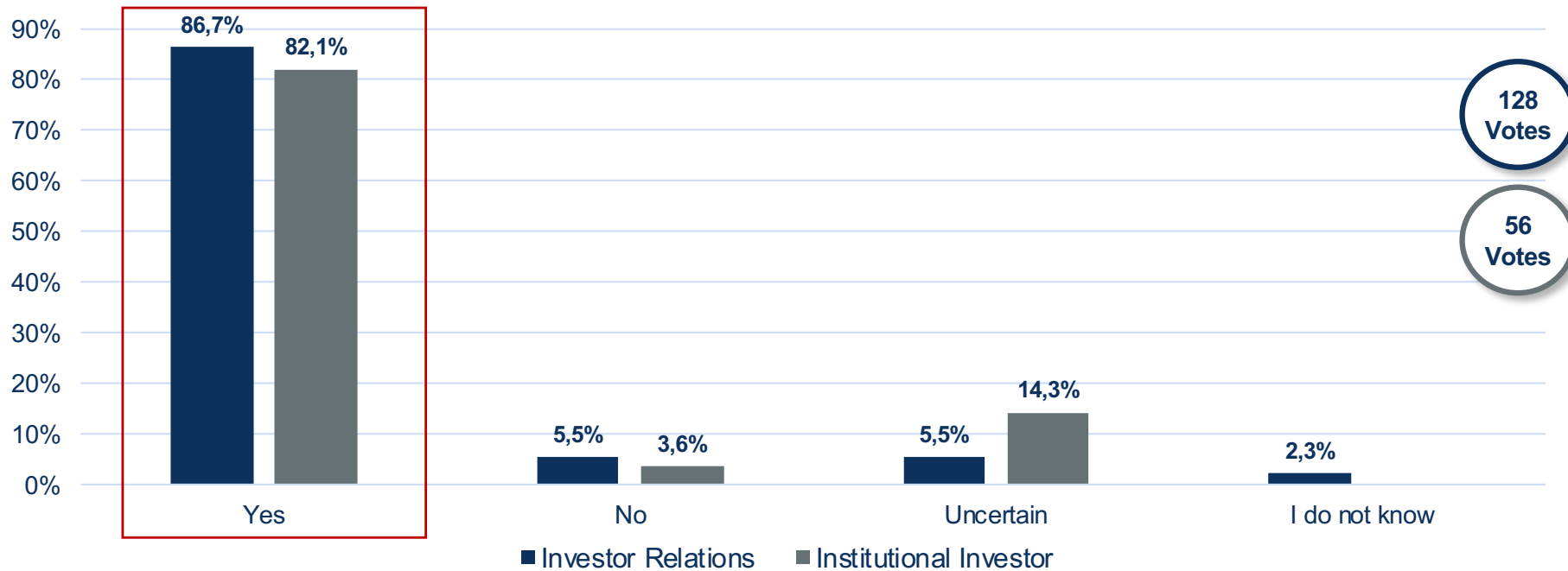
How important is sustainability with regard to a company's performance in general?

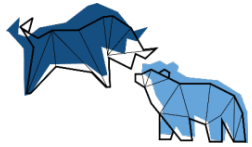




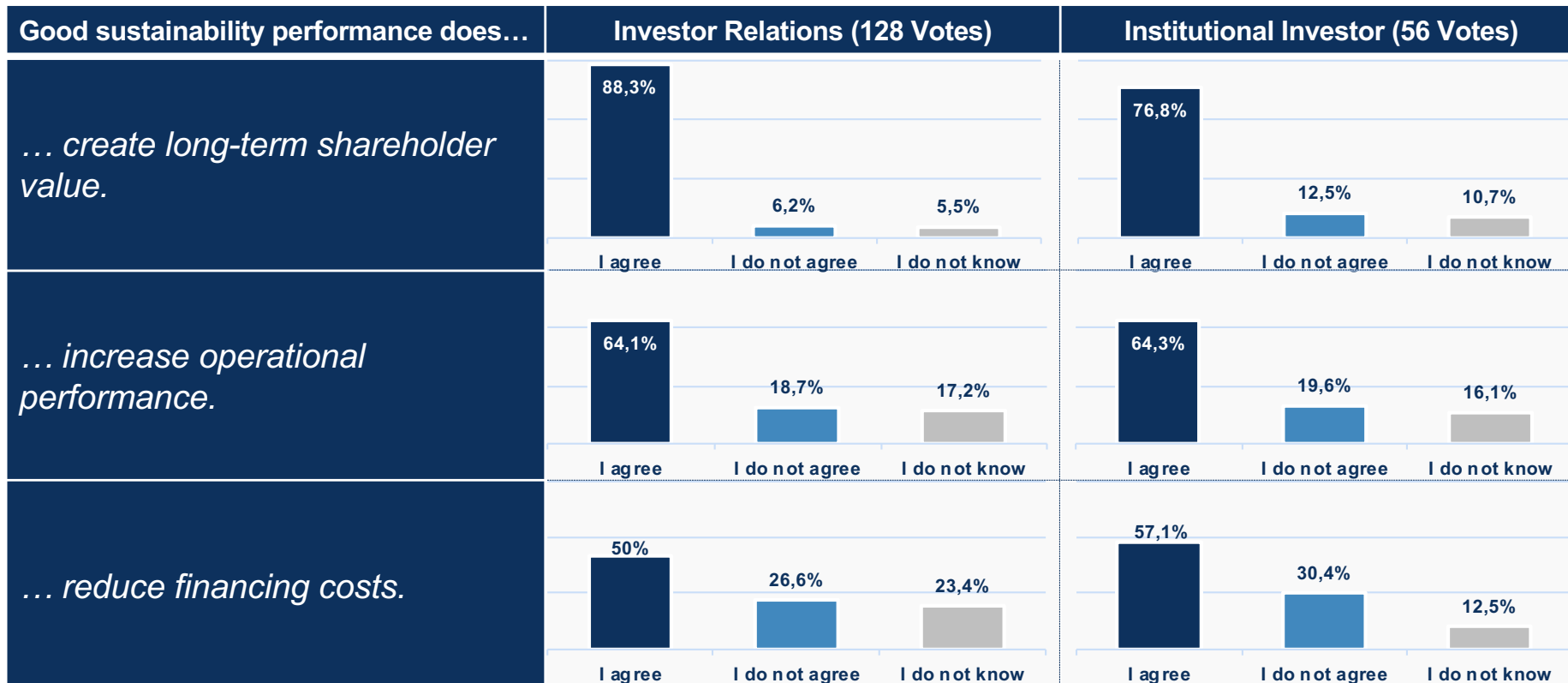
Sustainability will continue to gain in importance in the future

Will good sustainability performance gain in importance in the future?



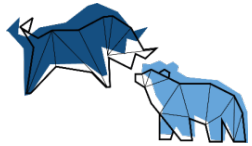


The majority of respondents believes that sustainability produces tangible value

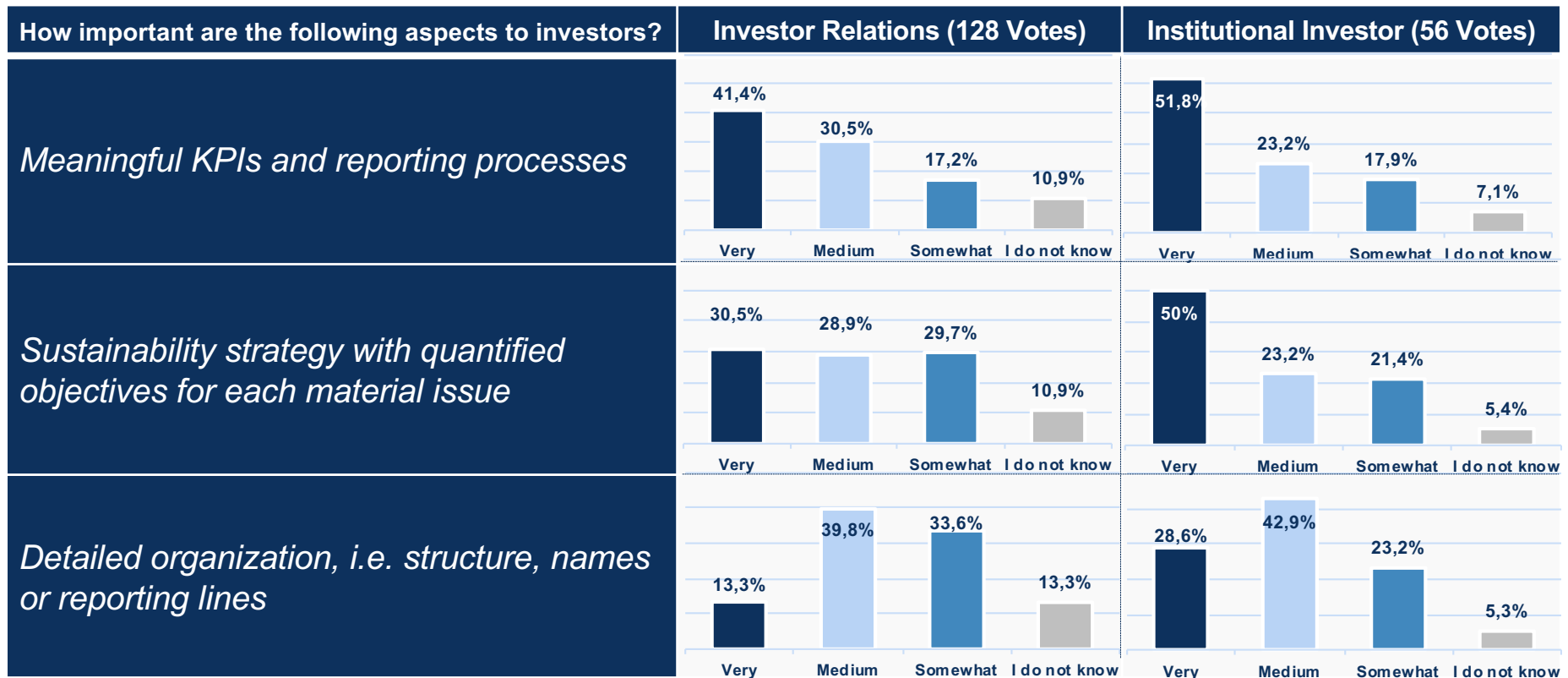


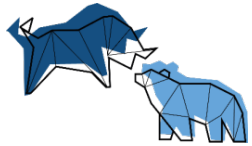
24. Juni 2019

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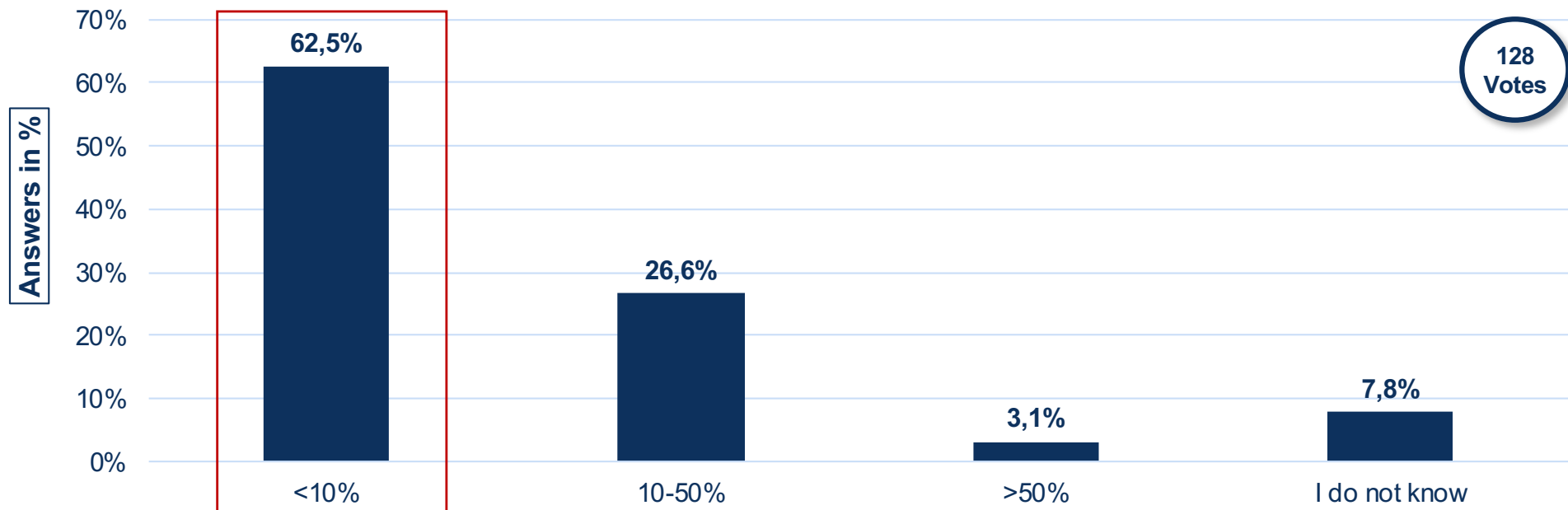
KPIs, strategy and objectives are critical for evaluating a company's sustainability performance

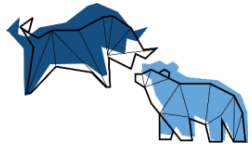




Whereas IROs believe that ESG is of minor importance to IIs ...

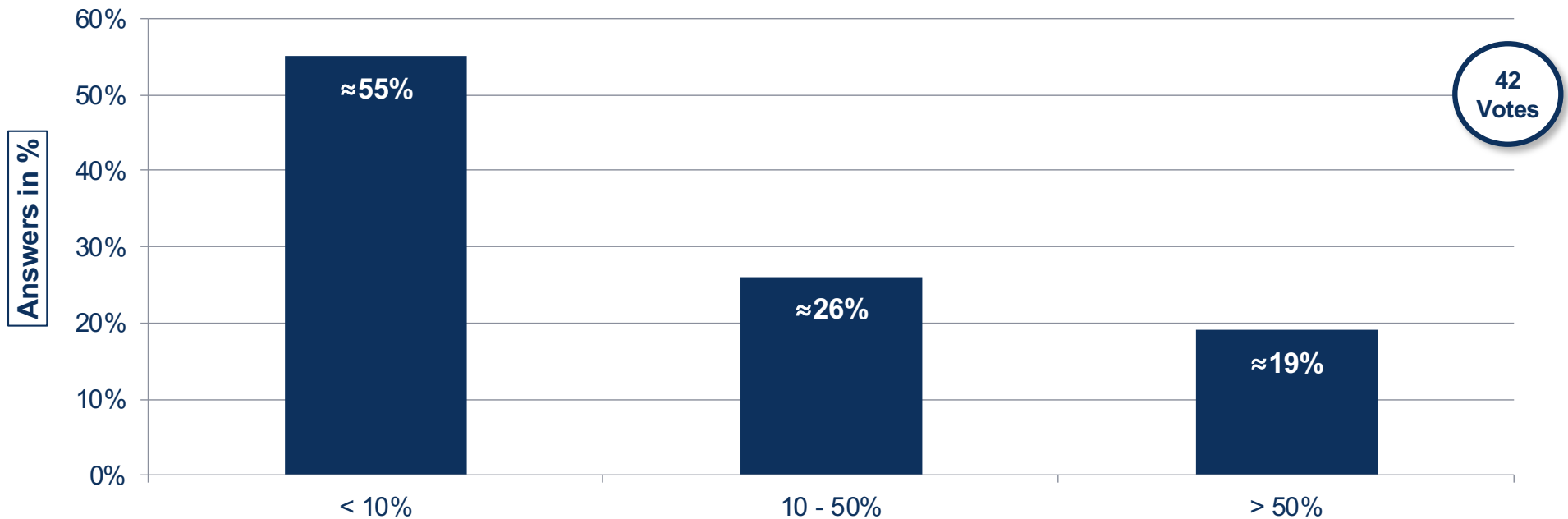
What is the percentage of investors emphasizing ESG?

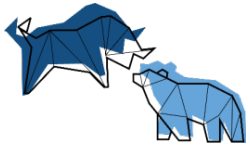




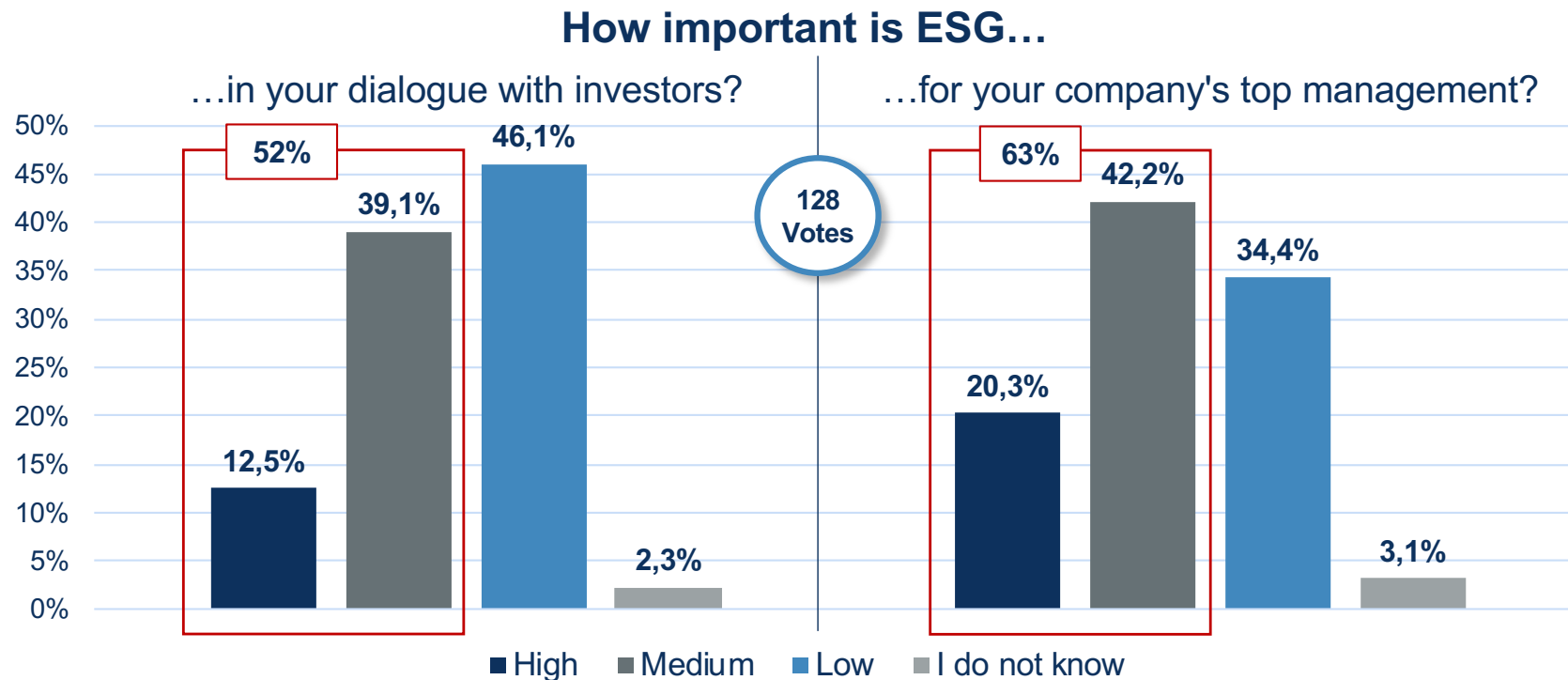
... the weighting reported by IIs is clearly higher

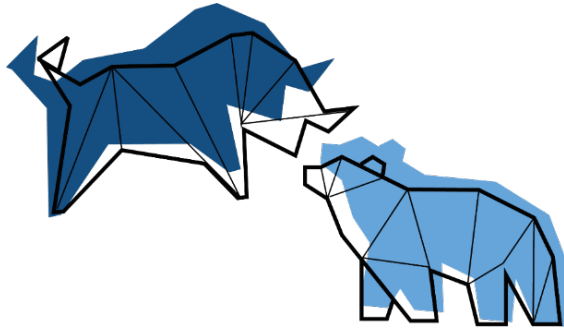
What is the portion of assets managed under ESG criteria on group level?





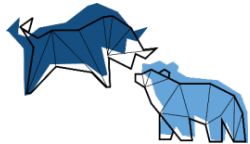
From IROs perspective sustainability is more important for communication with management than with investors









Evaluation of ESG research agencies

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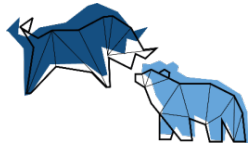


Profiles of ESG rating agencies (1/2)







Agency	Profile	Coverage	Analysis based on	Services
	CDP (non-profit) Founded 2000 (London) > 200	~ 7,000 companies ~ 620 cities ~ 120 states/ regions	<ul style="list-style-type: none"> Self-disclosure questionnaire Evaluation of criteria across three focus areas, distinguishing between companies and suppliers 	<ul style="list-style-type: none"> ESG ratings and research support via workshops and webinars 160 companies A-listed in 2017
	Covalence SA Founded 2001 (Geneva) > 5 employees	~ 3,400 companies	<ul style="list-style-type: none"> Publicly available information (web monitoring, artificial intelligence and human analysis) Evaluation of criteria across 8 areas 	<ul style="list-style-type: none"> ESG ratings and research
	FTSE Russell (FTSE International Limited) Founded as FT-Actuaries All-Share Index in 1962 (London) > 100 employees	~ 4,100 companies	<ul style="list-style-type: none"> Publicly available information Evaluation of on average 125 indicators individually selected for the company's circumstances 	<ul style="list-style-type: none"> ESG ratings Green Revenues data evaluation ESG Indexes (e.g. FTSE Good)
	ISS-oekom/ oekom research AG Founded 1993 as oekom Research (Munich) > 120 employees	~ 6,300 companies ~ 726 states & regional authorities	<ul style="list-style-type: none"> Publicly available information Interviews with company rep.'s and further stakeholders Evaluation of 100 sector specific social and ecological criteria across six areas Exclusion screening of controversies 	<ul style="list-style-type: none"> ESG ratings and research 550 rated oekom Prime in 2017

Source: Agencies, S&C

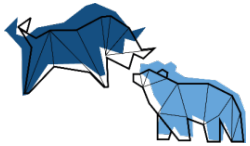


Profiles of ESG rating agencies (2/2)



Agency	Profile	Coverage	Analysis based on	Services
	MSCI Inc. Founded 1969 > 3,038 employees MSCI ESG Ratings Founded in 2010 as ex-Innovest/ KLD (New York) > 300 employees	~ 13,000 equity and fixed income issuers ~ 7,500 companies	<ul style="list-style-type: none"> Publicly available information plus formal data verification by company prior to publication of ratings Evaluation of 37 key issues across ten areas 	<ul style="list-style-type: none"> ESG ratings and research (company, industry and thematic reports, portfolio analytics, data feeds, indexes) ESG Indexes
	RobecoSAM AG Founded 1995 as SAM (Zurich) > 110 employees	~ 4,500 companies ~ 60 countries	<ul style="list-style-type: none"> Self-disclosure questionnaire (CSA assessment) Evaluation of 19 key issues across three areas 	<ul style="list-style-type: none"> ESG ratings
	Sustainalytics (Sustainalytics Holding B.V.) Founded 1992 as Jantzi Research (Amsterdam) > 300 employees	~ 9,000 companies	<ul style="list-style-type: none"> Publicly available information (company-issued information, media analysis) Evaluation of 40 industry-specific indicators 	<ul style="list-style-type: none"> ESG ratings and research
	Vigeo Eiris (Vigeo SAS) Merger between vigeo and EIRIS > 200 employees	~ 4,000 issuers	<ul style="list-style-type: none"> Self-disclosure questionnaires Evaluation of 38 criteria across six areas 	<ul style="list-style-type: none"> ESG ratings and research strategic support

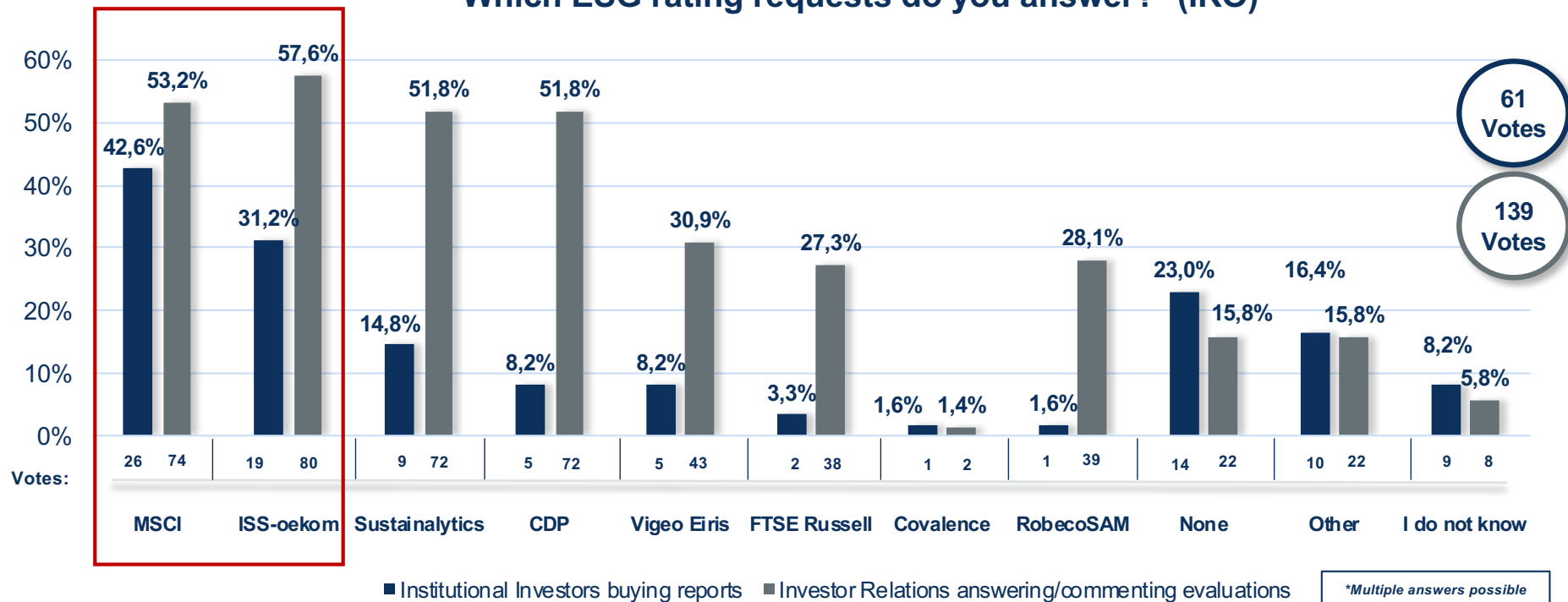
Source: Agencies, S&C

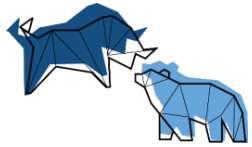


MSCI and ISS-oekom are the most favored ESG rating agencies by IROs and IIs

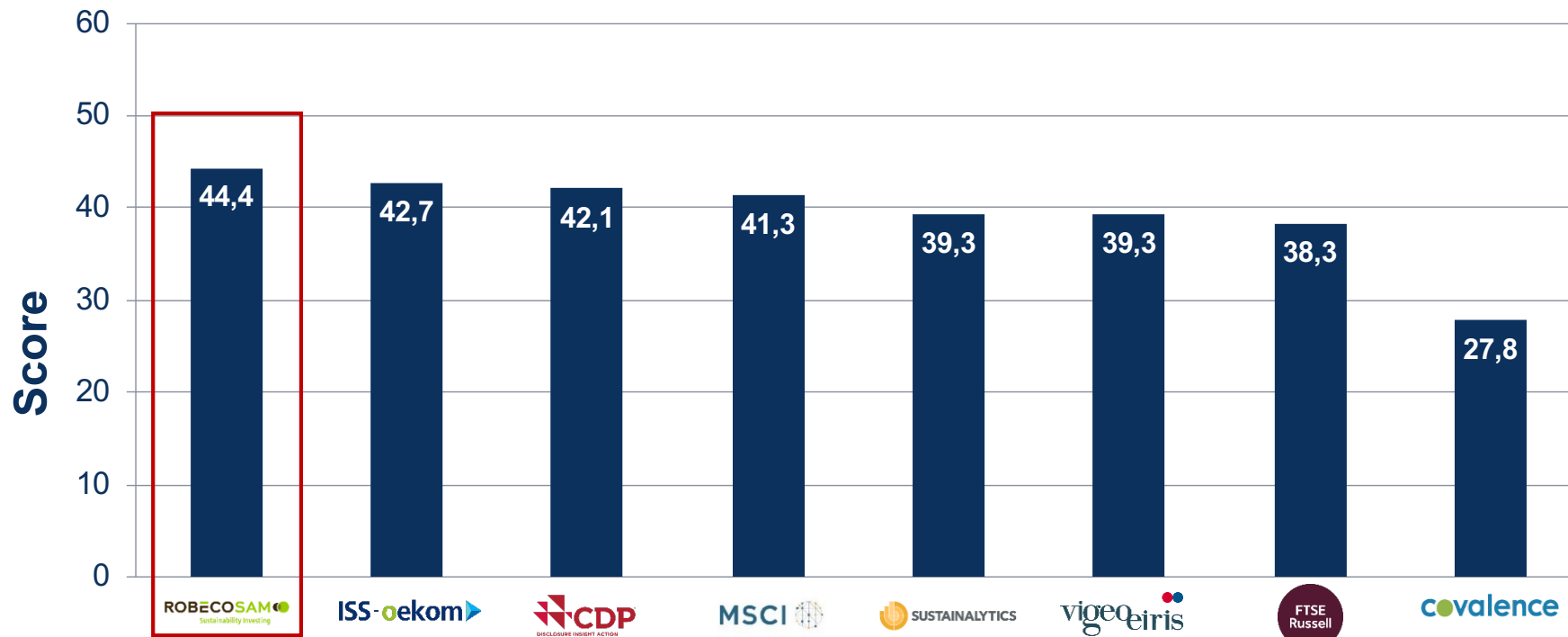


Which are the rating agencies you buy ESG research from?* (II)
Which ESG rating requests do you answer?* (IRO)





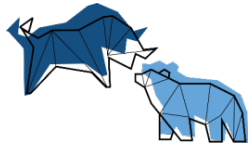
Evaluation of ESG research firm's quality (IRO's perspective)



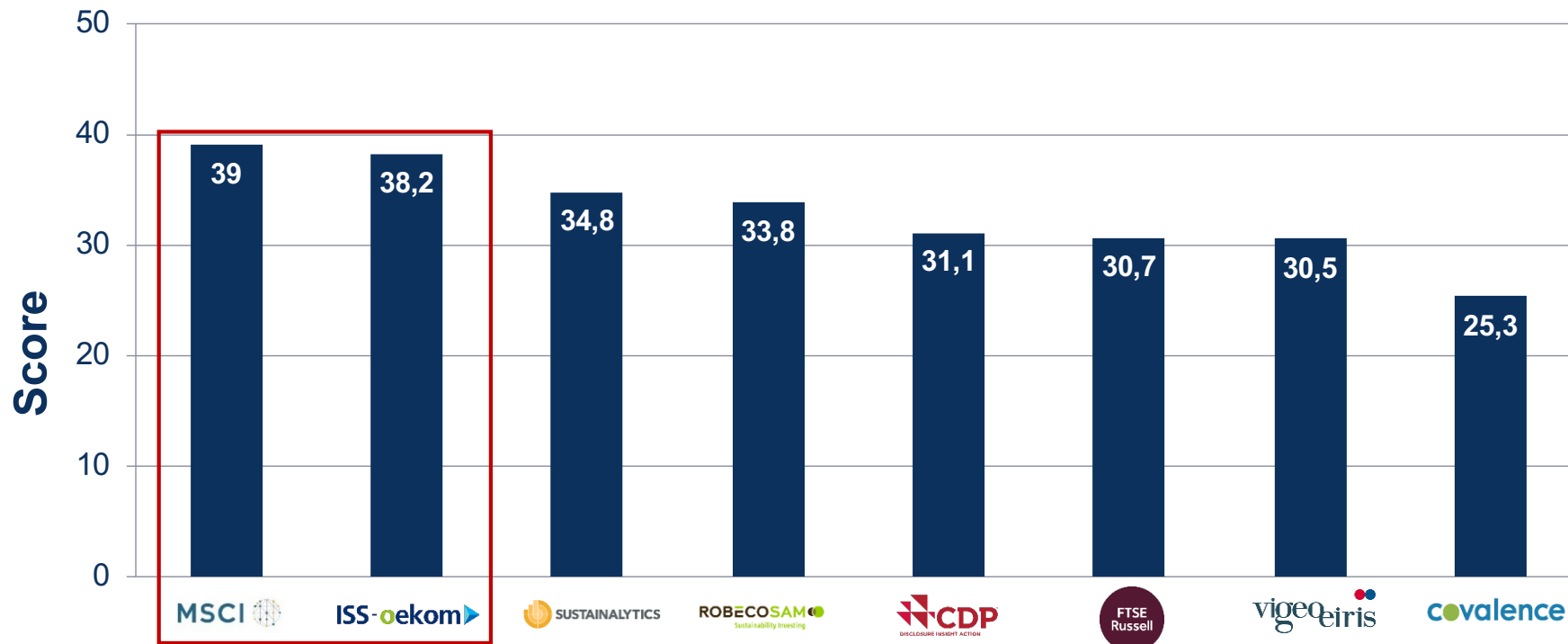
Maximum score per category is 10 points (max. 60 points in total)

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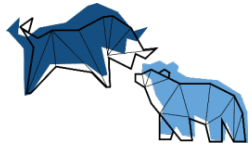
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Evaluation of ESG research firm's quality (II's perspective)




Maximum score per category is 10 points (max. 60 points in total)



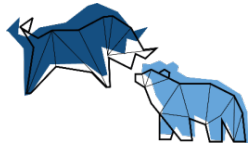
Evaluation of ESG rating agencies IRO's perspective



Category \ ESG Firm	ROBECOSAM Sustainability Investing	ISS-oekom	CDP DISCLOSURE HESITANT ACTION	MSCI	SUSTAINALYTICS	vigeo eiris	FTSE Russell	covalence
Quality	7,6	7,2	7,1	7,1	6,6	6,7	7,0	5,5
Added Value	7,4	7,1	7,1	7,2	6,7	6,6	6,5	4,5
Coverage	7,4	7,3	7,1	7,4	7,1	6,9	7,1	4,0
Presentation	7,4	7,2	6,7	7,1	6,5	6,4	5,9	4,3
Interaction	7,0	7,3	7,0	6,2	6,3	6,3	5,6	4,0
Innovation	7,6	6,6	7,1	6,3	6,1	6,4	6,2	5,5
Overall result	44,4	42,7	42,1	41,3	39,3	39,3	38,3	27,8

 = Best in class

Maximum score per category is 10 points (max. 60 points in total)




Evaluation of ESG rating agencies

Institutional investors' perspective



Category \ ESG Firm	MSCI	ISS-oekom	SUSTAINALYTICS	ROBECOSAM Sustainability Investing	CDP DISCLOSURE LEADERSHIP ACTION	FTSE Russell	vigeo eiris	covalence
Quality	7,7	7,8	6,9	7,0	6,4	6,7	6,8	5,0
Added Value	8,0	7,7	7,0	6,8	5,8	5,4	6,0	4,8
Coverage	7,9	7,9	7,2	6,8	6,9	6,0	6,4	5,5
Presentation	7,7	7,3	7,0	6,7	6,2	6,6	6,3	5,0
Innovation	7,7	7,5	6,7	6,5	5,8	6,0	5,0	5,0
Overall result	39,0	38,2	34,8	33,8	31,1	30,7	30,5	25,3

 = Best in class

Maximum score per category is 10 points (max. 50 points in total)

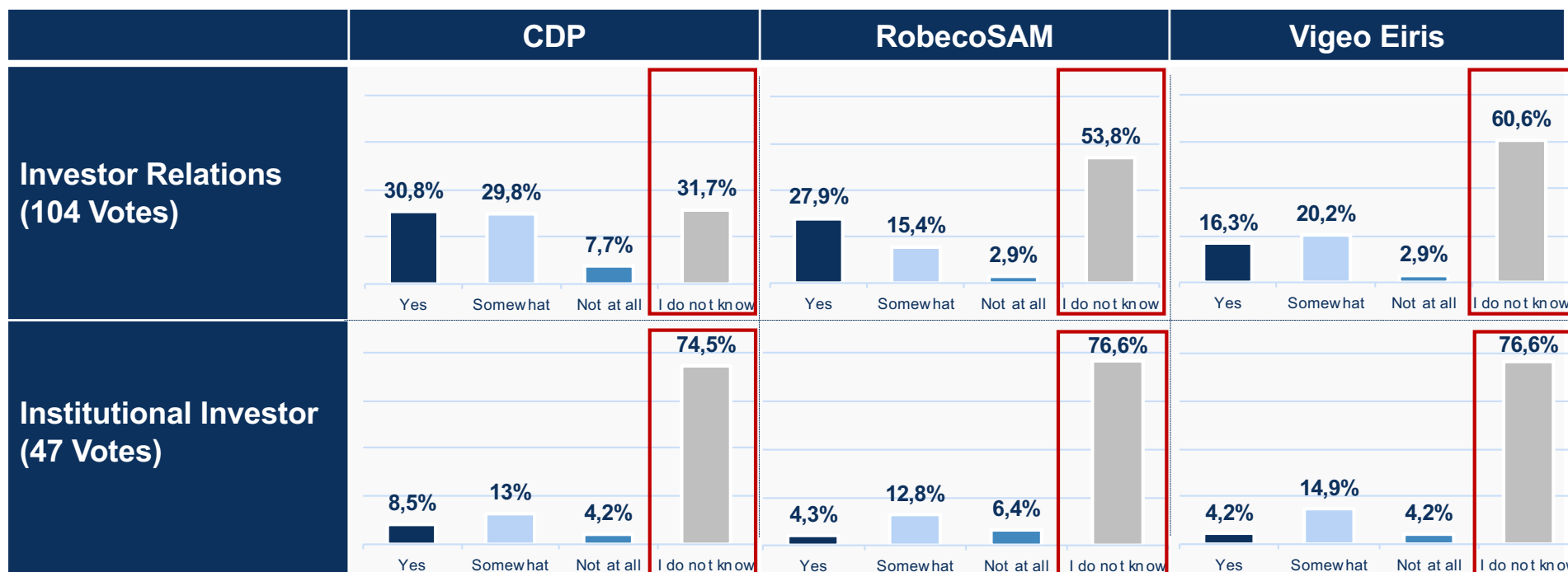
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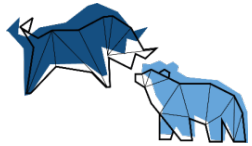
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The familiarity of both, IROs and IIs with ESG rating agencies' approach appears to be rather low

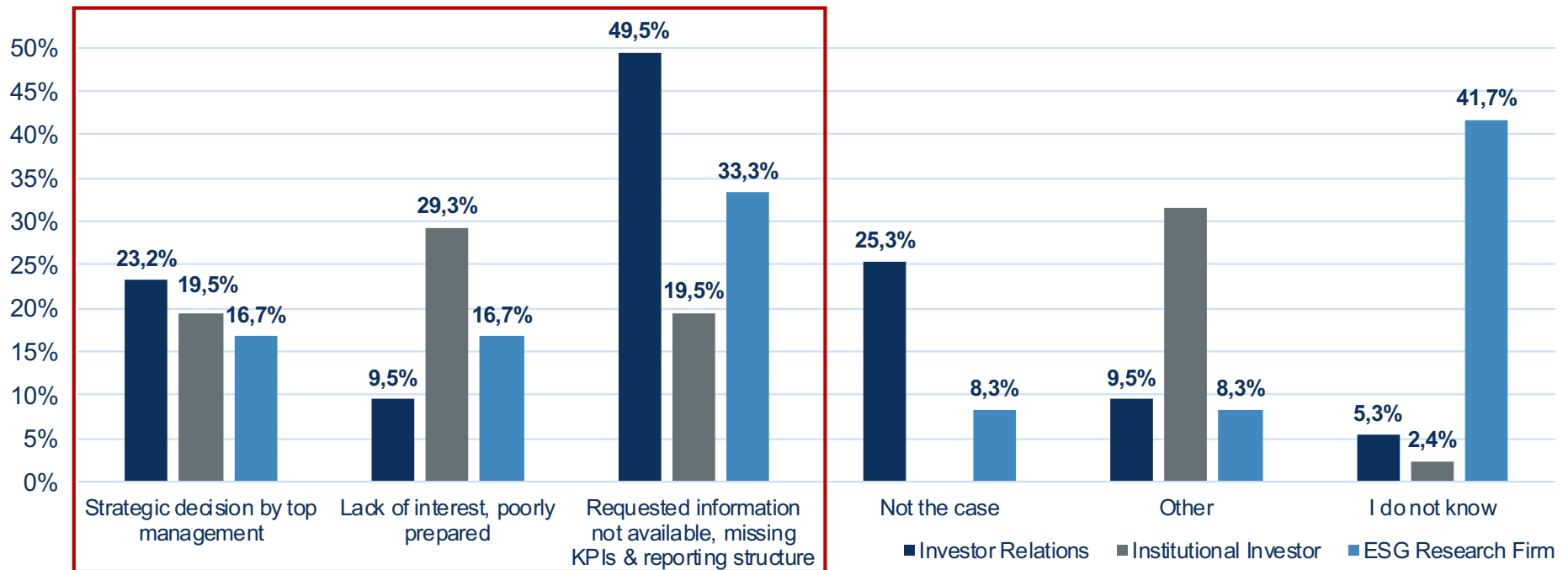
Is the overall scope and relevance of selected topics sufficiently addressed through questionnaires?



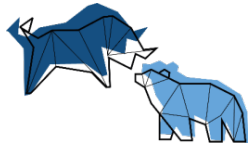


Missing data and management decision are mostly named as reasons for not supplying ESG information

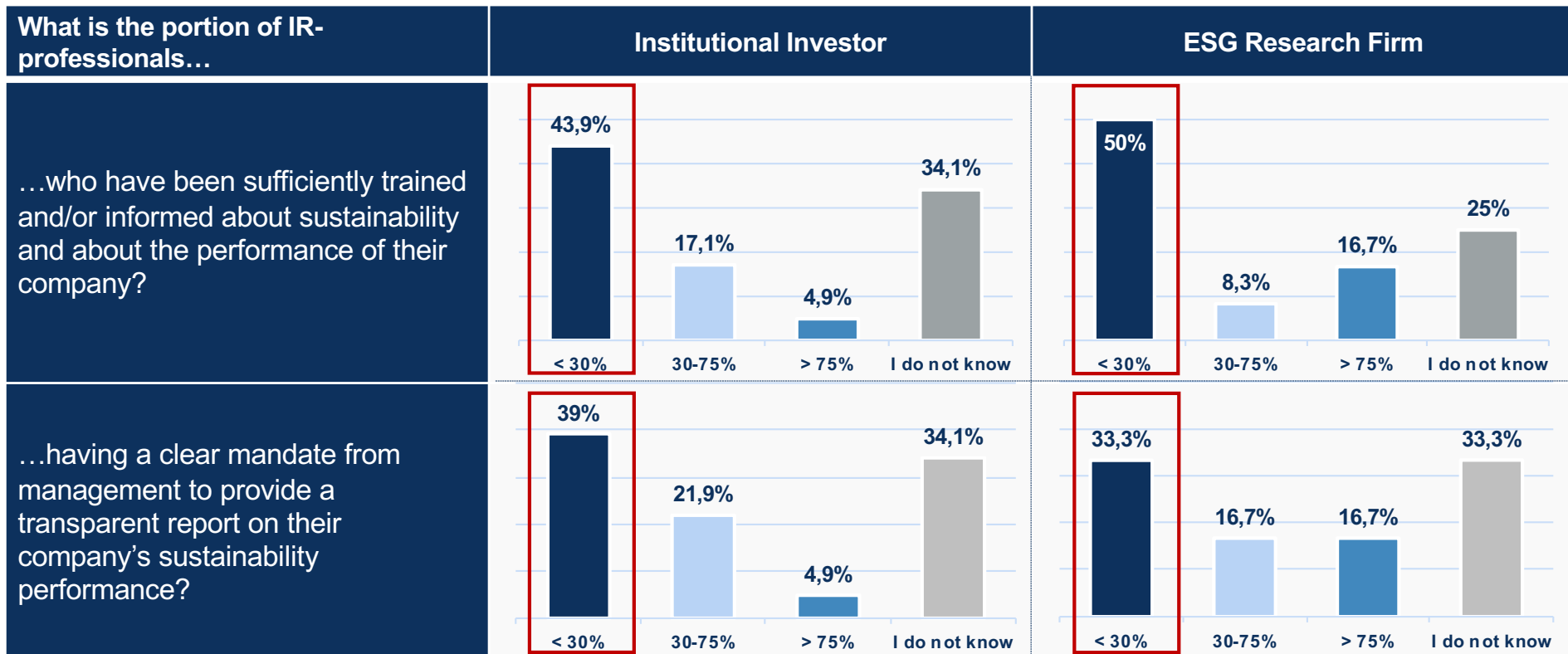
What are the most frequent reasons for companies to withhold ESG information?*

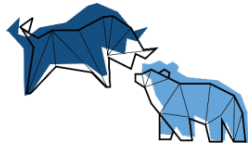


*Multiple answers possible



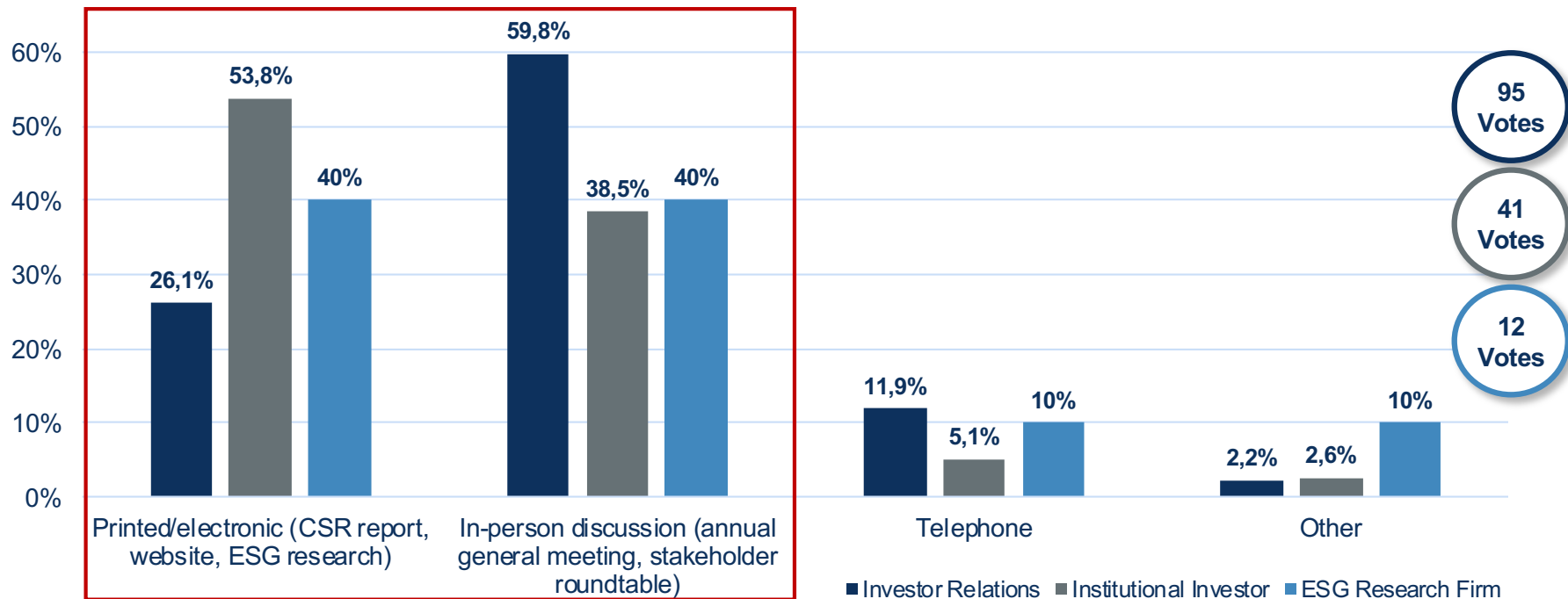
High percentage of insufficient ESG knowledge or lack of mandate to discuss ESG

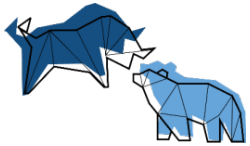




The preferred channels for communication are print / online-report and in-person discussion

Preferred channel for communication with investors/companies.

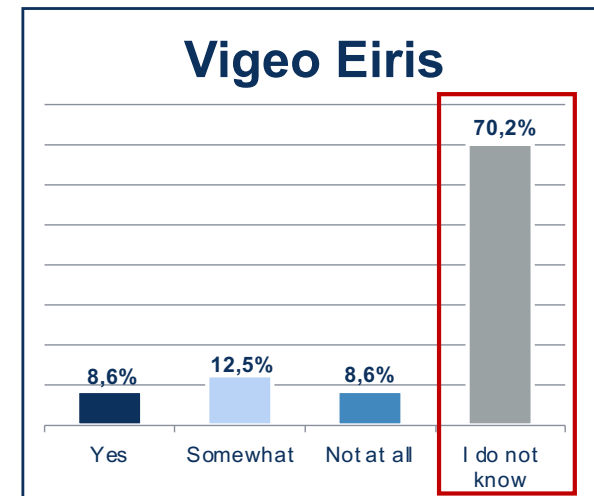
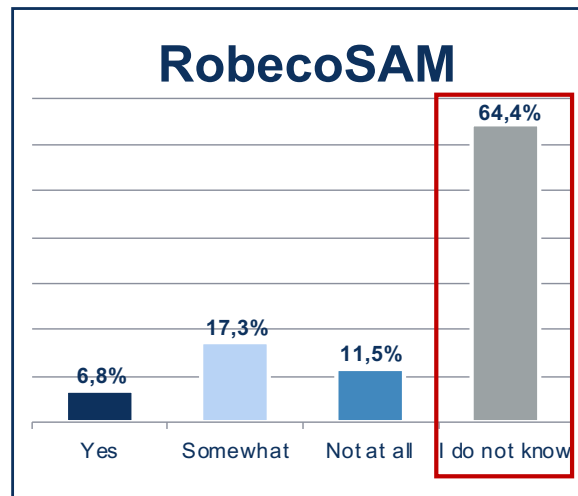
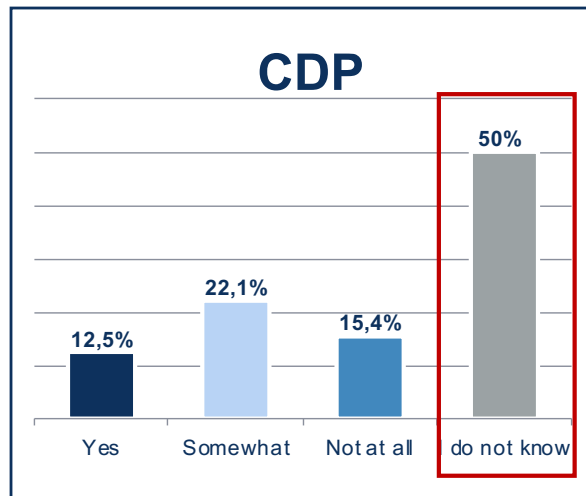


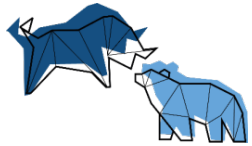


ESG rating agencies are only to a small degree prepared to negotiate from the IRO perspective (1/2)

Is the rating agency willing to discuss and amend its verdict?

Questionnaires (104 Votes)

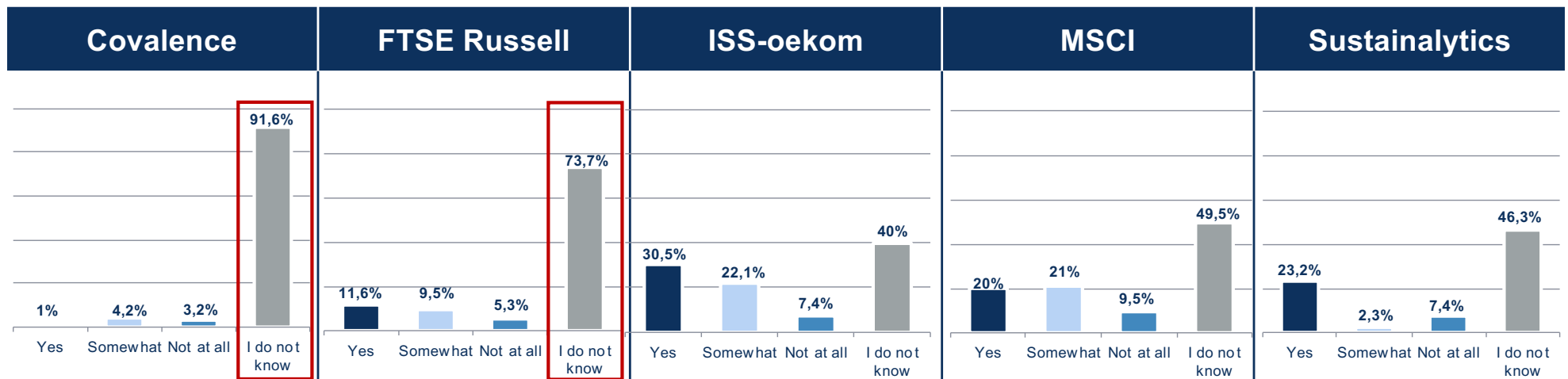


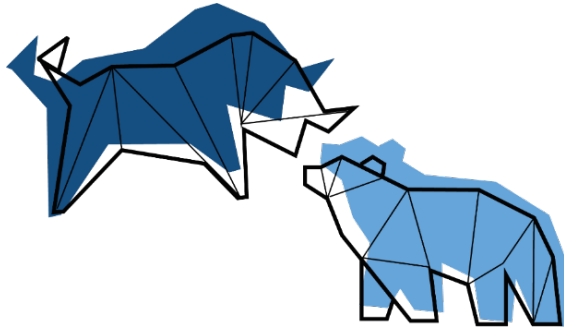


ESG rating agencies are only to a small degree prepared to negotiate from the IRO perspective (2/2)

Is the rating agency willing to discuss and amend its verdict?

Publicly available information (95 Votes)





Thank you for your attention!

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