

ESG Reporting: What's Good and What Needs to Change?

A complimentary webinar for corporate sustainability professionals and ESG investors

16 November 2017

**S&P Dow Jones
Indices**

A Division of **S&P Global**

Agenda

- **Welcome & Context**
- **Panellist Introductions**
- How can we close the gap between current ESG reporting and investor expectations?
- What should the future of ESG reporting look like, and how can we get there?
- Do competing frameworks and a lack of globally harmonized standards hamper progress?
- How can we help social disclosures to become as robust as environmental disclosures?
- Question & Answer Session



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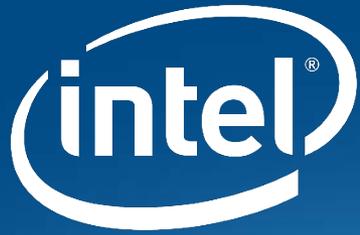
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GENERAL MOTORS

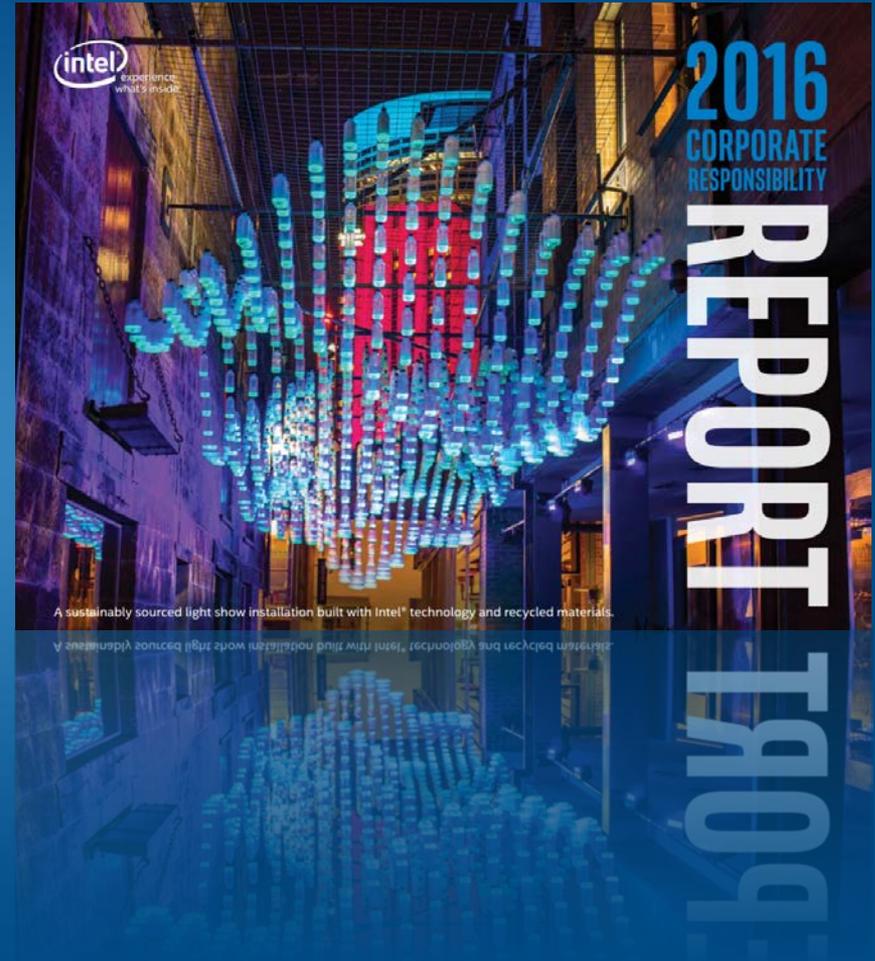


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**THE CHURCH
OF ENGLAND**

OUTCOMES
BEYOND
PERFORMANCE }

ESG REPORTING: WHAT'S WORKING AND WHAT NEEDS TO CHANGE?

WILL POMROY, HERMES

Will Pomroy, Responsible Investment Manager

16th November

For professional investors only


HERMES
INVESTMENT MANAGEMENT

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Our approach to holistic returns means we are committed to delivering excellent long-term investment performance and stewardship, while improving the lives of many

Introducing Hermes Investment Management

US\$35.3bn

under management

US\$323bn

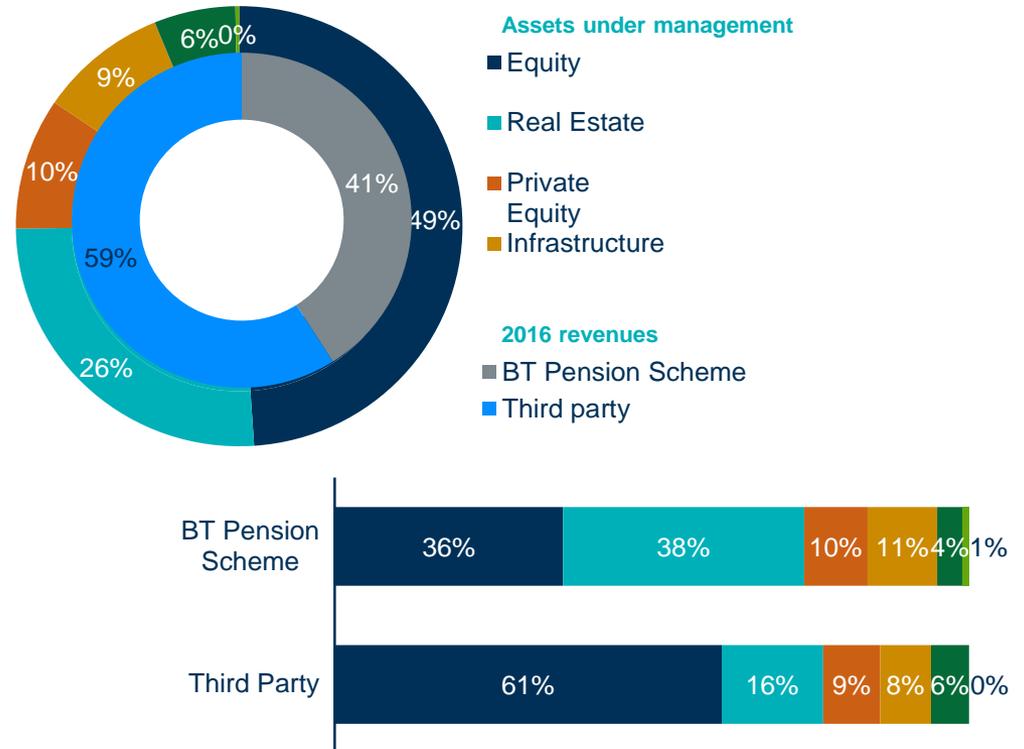
under stewardship

414 staff located in London, Singapore and New York

166 Investment and stewardship

63 Business Development

185 Support Services



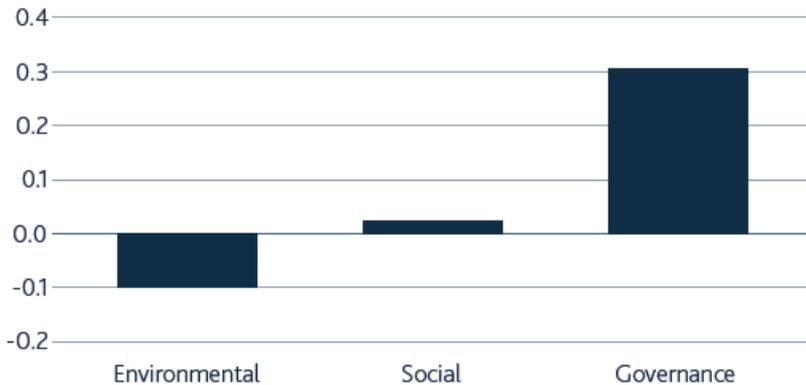
Please note the total AUM figure includes £5.4bn/US\$6.7bn/€6.4bn of assets managed or under an advisory agreement by Hermes GPE LLP ("HGPE"), a joint venture between Hermes Fund Managers Limited ("HFM") and GPE Partner Limited. HGPE is an independent entity and not part of the Hermes group. £0.1bn/US\$0.1bn/€0.1bn of total group AUM figure represents HFM mandates under advice. Source: Hermes as at 31 December 2016 with the exception of one portfolio totalling £10.5m/US\$13.0m/€12.3m valued as at 30 November 2016. Throughout this presentation GDP/US\$ is taken at 1.23565 (31.12.2016 rate).

ESG and engagement integration

Evidence from our internal research makes the case for why important

Companies with weaker governance have lower returns

Chart 1. ESG value is driven by Corporate Governance (%)



Average monthly dispersion in total returns between companies in top decile and lowest decile on environmental, social and governance scores from 31 December 2008 to 31 December 2013

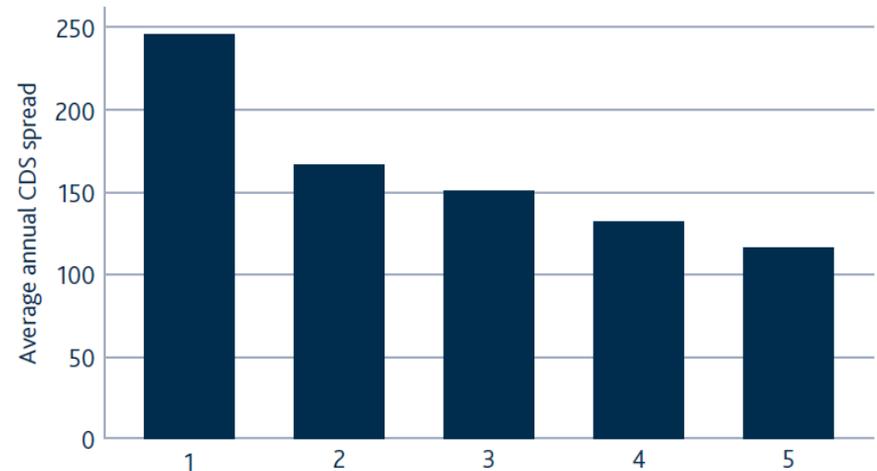
Source: Hermes Fund Managers

Source: "ESG Investing. It still makes you feel good, it still makes you money" by Hermes as at 30 June 2016

Lower ESG scores lead to higher cost of capital

QESG quintiles and CDS spreads

1 = bottom 20% QESG scores, 5 = top 20% QESG scores



Source: Pricing ESG Risk in Credit Markets, Hermes Research Paper, Q2, 2017 – own calculations as at February 2017, data sourced from Hermes Global Equities and Bloomberg

ESG Reporting - what Needs to Change?

More substance, less style

More quantification needed

- ▶ Too much sustainability disclosure explains the presence of a policy but provides little information about the implementation or impact of said policy

Clarity over scope

- ▶ Too often ESG data and financial data are a case of comparing apples and pears – 100% of the issuing entity please

Consistency, comparability and balance

- ▶ Too often it is not possible to compare and contrast between peers or over time

Disclosure versus performance - MSCI World index (1,651 companies)

Qualitative disclosure #	Quantitative disclosure #
Training policy: 1,197	Training expense: 143
Health & safety policy: 1,226	Lost-time Incident Rate: 373
Climate change policy: 1,185	GHG scope 1: 592
Waste reduction policy: 1,180	Total waste discharged: 232

Source: Hermes sourced using Bloomberg data and companies in the MSCI World Index 13 November 2017

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Multi asset

Multi asset inflation

Stewardship

Active engagement, advocacy, intelligent voting and sustainable development

Offices

London | New York | Singapore

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Thank you for attending



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