finnCap
CAPITAL MARKETS

ESG Focus

Thematic research

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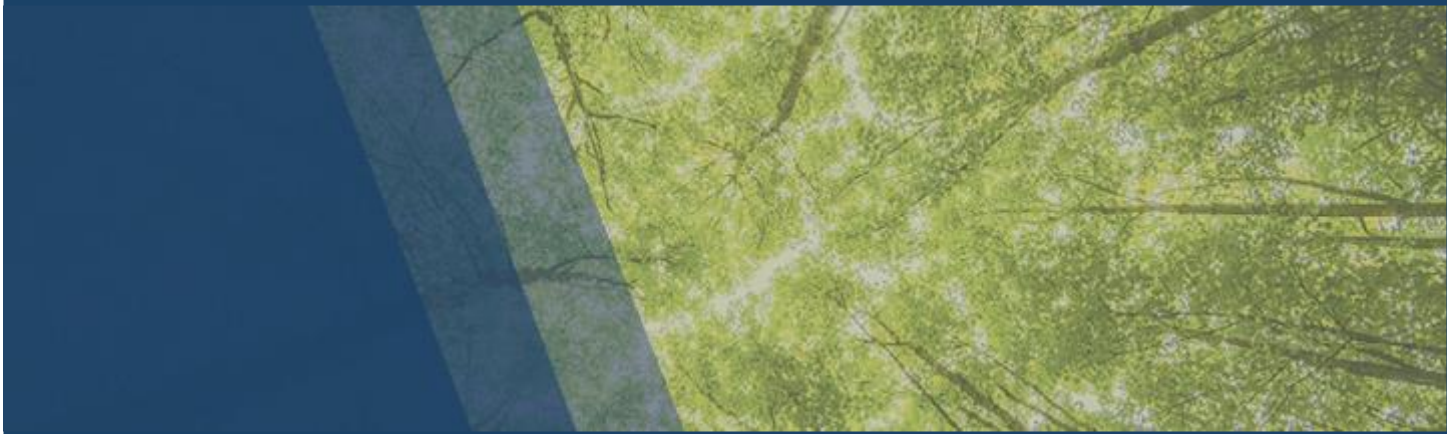


A finger on the ESG pulse

- **Our fund manager survey shows a dramatic shift versus 2020, with all fund managers now incorporating ESG factors into their decision-making process.** The emphasis on 'E' and 'S' factors has also increased dramatically.

- **Analysis of fund flows shows that money continues to pour into ESG-focused funds.** We would go so far as to suggest that it would now not be possible to launch a new fund in Europe without being able to demonstrate its ESG credentials.

- **We have measured 100 companies on the finnCap ESG Scorecard and versus 2020 we see incremental, albeit positive, development across most factors.** Most apparent is the stunning collapse in CO_2 emissions thanks to an absence of commuting and business travel.

- **Our recommendations to businesses have evolved subtly from last year:** i) obtain the key environmental data and build a plan to net zero; ii) prepare and apply the key social policies (ethics, community outreach, anti-discrimination); and iii) achieve a greater degree of diversity across the business, as well as the boardroom.

- **We have done a 'deep dive' on TCFD, what it is, what companies need to know and what they need to do.** This is important, because the UK is likely to mandate that all companies should comply with TCFD.

- **Appendices contain a smorgasbord of information on the key ESG policies, frameworks and standards, as well as how to measure and obtain data on ESG.**

Raymond Greaves
Head of Research
rgreaves@finncap.com
020 7220 0553

Michael Clifton
Research Analyst
mclifton@finncap.com
020 3772 4682

Kimberley Carstens
Research Analyst
kcarstens@finncap.com
020 7220 0548

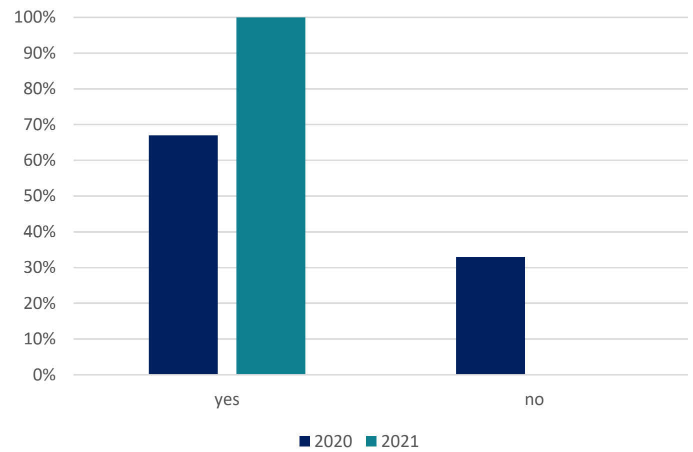
ESG report highlights

- **On the eve of COP26, we have taken the opportunity to update our work and analysis on ESG.**
- **We have re-run our fund manager survey, which shows a dramatic shift versus 2020 with all fund managers now incorporating ESG factors into their decision-making process. The emphasis on 'E' and 'S' factors has also increased dramatically.**
- **Our spotlight on fund flows suggests that at current run rates, 2021 inflows in ESG-focused funds could be double 2020 levels, which itself was double 2019. We would go so far as to suggest that it would now not be possible to launch a new fund in Europe without being able to demonstrate its ESG credentials.**
- **We have updated our ESG Scorecard on c100 companies where we see incremental, albeit positive, development across most factors. Most apparent is the stunning collapse in CO_2 emissions thanks to an absence of commuting and business travel.**
- **Finally, we have a 'deep dive' on TCFD, what it is, what companies need to know and what they need to do. The UK is likely to mandate that all companies should comply with TCFD.**

Fund managers: adopting ESG with enthusiasm

- We present the results of our annual survey of fund managers of UK smaller company funds to understand how attitudes are evolving towards the use of ESG factors in the investment process.
- **There are some considerable shifts in opinion year-on-year**. One of the most dramatic is that **ALL fund managers now appear to be using ESG factors in their portfolio decision-making process** (Figure 1), up from 67% in 2020. Further, 80% of managers plan to further incorporate ESG factors in future.
- In terms of what aspect of ESG managers focus on, while Governance still leads, both **Environmental and Social factors have made a huge stride forward 2021 vs 2020**. 60% of fund managers now use these factors (up from 14% and 28%, respectively, in 2020).
- Attitudes seem to have shifted somewhat 2021 vs 2020 as to why ESG has been adopted. **Risk management is now the dominant reason**, while investor pressure is now a reason (it wasn't a reason at all in 2020).
- **Another dramatic shift relates to fund marketing**. ESG would now be front-and-centre in the marketing message for a new fund. **ALL respondents said ESG would either be at the forefront or a significant part of the marketing message for a new fund**, up from 43% in 2020.

Figure 1: Do you incorporate ESG factors into your investment process? Now all fund managers answer 'yes'

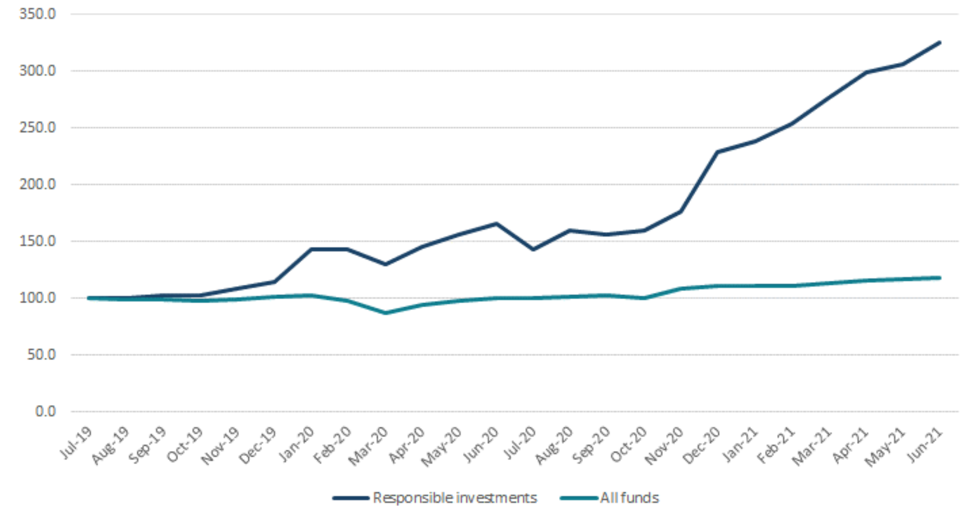


Source: finnCap

ESG fund flows going from strength to strength

- **Funds with a specific 'ESG' flavour continue to go from strength to strength**: global inflows doubled to US$367bn in 2020 versus 2019, which itself was triple 2018 levels. **At current run rates, 2021 inflows could be double 2020 levels**.
- This accelerating inflow dynamic is very evident in the UK, Europe and the US. **Any suggestion that interest in ESG was simply driven by the onset of the pandemic seems false, given that inflows continued to break new records well into 2021**. One statistic to illustrate this: while AUM in UK equities has increased +13% since July 2019, AUM in UK responsible investments has increased by +225% (Figure 2).
- While the pandemic has clearly been a big catalyst, other powerful drivers include: i) some evidence that these funds produce **better returns at lower risk**; ii) **extreme weather events** are playing into the climate change thesis; and iii) baby boomer **wealth is gradually being transferred to younger investors** and they have a greater propensity to invest on an ESG-compliant basis.
- The fund management industry is rapidly adapting to this apparent megatrend: **we would go so far as to suggest that it would now not be possible to launch a new fund in Europe without being able to demonstrate its ESG credentials**.

Figure 2: Growth in AUM for UK funds, indexed to 100 in May-19: ESG investing continues to grow very rapidly



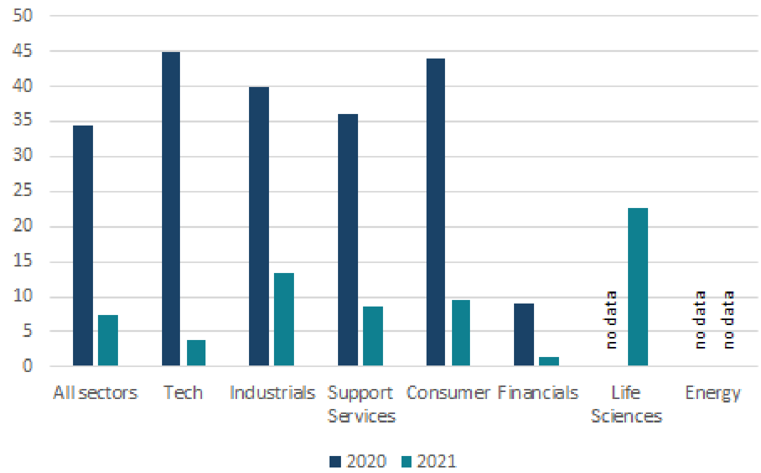
Source: IA

Corporate ESG scorecard: companies slowly moving in the right direction

- In 2020, we created a simple ESG scorecard for companies based around 15 datapoints, 5 in each of E, S and G. As far as possible, these data points are quantitative, unambiguous, uncontroversial, easily obtained and – hopefully – meaningful. Once again, we have collected these data points on c100 quoted companies and are in a position to compare 2021 vs 2020.
- **Despite all the attention given to climate and ESG issues over the past twelve months, changes at the corporate level are somewhat incremental**: but it is pleasing to see a measurably greater adoption rate of the key policies (environmental, discrimination, community outreach and ethics), while boardroom diversity is steadily improving from a low level. **The biggest y-o-y change is a collapse in CO_2 emissions thanks to an absence of commuting and business travel** (Figure 3).
- **A key observation we made in 2020 is still true today: where there is scrutiny there is compliance**. Sectors that have been under public/investor pressure to 'do better' score higher than expected in our survey. The good showing of the Industrials sector as a whole is a case in point, despite the inherent disadvantages of its Environmental footprint. That all sectors do well on Governance is a clear reflection of investor focus in this area

- **Key recommendations to corporates have evolved somewhat**: we have three key recommendations for companies looking to demonstrate their ESG credentials to potential investors: **i) obtain the key environmental datapoints** (energy, CO_2, water and waste), and **build a pathway to net zero** - particularly for non-industrial businesses there is likely to be little to be afraid of; **ii) prepare and apply the most important policies** (environmental, discrimination, ethics and community outreach); and **iii) continue to try to achieve greater diversity in the boardroom and across the wider business**. Armed as such, in our view, most smaller companies will be able to look forward to the forthcoming ESG scrutiny with confidence.

Figure 3: Median CO_2 intensity by sector (tonnes/£m), 2021 vs 2020 datum: year on year collapse due to absence of commuting and business travel



Source: finnCap

TCFD is coming: what do you need to know?

- The ESG world is currently awash with standards, frameworks, policies and acronyms. In an effort to navigate this sea of confusion, the Taskforce for Climate-Related Financial Disclosures (TCFD) has been established to provide a structure for companies to follow specifically in relation to their environmental reporting.
- Critically, TCFD meshes with the UN Sustainable Develop Goals (SDGs) and many other existing ESG frameworks and standards in an attempt to pull it all together into a coherent whole. **At its core, TCFD is trying to help stakeholders better understand how climate-related risks and opportunities impact an organisation's future financial position**, thus assisting in the efficient allocation of resources.
- TCFD is supported by 1,000+ organisations (473 are financial firms with US$140tr in assets) and endorsed by 72 central banks. **The framework consists of four core aspects forming the basis for recommended disclosures: Governance, Strategy, Risk Management and Metrics & Targets**.
- The Task Force recommends all financial and non-financial organisations with public debt and/or equity adopts its recommendations, regardless of industry. **The UK, the first country in the world to likely mandate TCFD, has gone further, suggesting that all public companies, large private companies and all LLPs should comply with TCFD**.

Contents

TCFD unpacked: what you need to know

- **The ESG world is currently awash with standards, frameworks, policies and acronyms. In an effort to navigate this sea of confusion, the Taskforce for Climate-Related Financial Disclosures (TCFD) has been established to provide a structure for companies to follow specifically in relation to their environmental reporting.**
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Why are ESG frameworks & standards needed?

The idea of ESG has gained tremendous momentum, driven by the UN, Governments and investors. Public and private companies are facing increased pressure from investors and other stakeholders to disclose their ESG impacts, practices and risks.

However, one of the biggest challenges in the adoption of ESG integration has been the lack of standardised guidelines:

- Organisations require a guide to identify ESG opportunities and navigate the integration process;
- Institutional investors require investment grade ESG data to reliably assess performance to inform capital allocation.

Some investors have expressed concern that a lack of a standardised ESG disclosure framework makes it difficult to compare and evaluate companies across their ESG practices and risks, thereby reducing the value of such disclosures. Disclosure standards have historically also been voluntary, making comparisons across firms and industries even more challenging.

Enter the Taskforce for Climate-Related Financial Disclosures (TCFD)

In December 2015, the then Financial Stability Board (FSB) Chair Mark Carney announced the establishment of the TCFD with Michael Bloomberg as Chair. The TCFD was established to develop recommendations for more effective climate-related disclosures to establish more information transparency on climate-related risks. The recommendations are structured around four thematic areas that interlink and inform each other: **Governance**, **Strategy**, **Risk Management** and **Metrics & Targets**.

Critically, **TCFD also meshes with the UN Sustainable Develop Goals (SDGs) and many other existing ESG frameworks and standards** in an attempt to pull it all together into a coherent whole. At its core, TCFD is trying to assist in the efficient allocation of resources through better information to all stakeholders.

Heavyweight backing for the TCFD has already been achieved:

- **Institutional investors with US$140tn assets under management have subsequently backed the final recommendations of the TCFD;**
- **The UK Government has committed to apply the TCFD as a fully mandated requirement for public companies, large private companies and LLPs, thus becoming the first country in the world to do so.**

Implementation of the TCFD recommendations has a number of benefits. By increasing awareness and understanding of climate-related risks and opportunities, organisations can develop more informed risk management strategies and proactively address investor demand for climate-related information. In turn, organisations can instil greater confidence in investors and lenders that the organisation is appropriately managing climate-related risks and so gain easier access to capital while more effectively meeting existing financial disclosure requirements.

TCFD basics: how will it operate?

The Task Force consists of 32 members across the G20 who represent preparers and users of financial disclosures and is **supported by 1,000+ global organisations** (of which 473 are financial firms responsible for US$140tn in assets, as of February 2020) and **endorsed by 72 central banks** and supervisors as part of the Network for Greening the Financial System (NGFS). The importance of TCFD was underlined in November 2020 when the UK Government committed to apply the TCFD as a fully mandated requirement.

Development of the TCFD

TCFD was established in December 2015, after G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board to complete a review about how the financial sector can take account of climate-related issues. In April 2017, TCFD recommendations were finalised following a consultation period and since then, the TCFD has published three status updates on the progress companies are making on implementing the recommendations.

What is the TCFD framework?

The TCFD aims to develop a consistent climate-related financial risks disclosure framework to provide material information to investors, lenders, insurers and other stakeholders. Climate-related information transparency clarifies which companies will flourish or struggle as the physical climate and regulatory environment changes. This standardised information will also ensure a smooth transition to a low-carbon economy as regulations evolve and as companies are encouraged to incorporate climate-related risks and opportunities into their risk management and strategic planning processes.

The framework consists of four core aspects forming the basis for recommended disclosures:

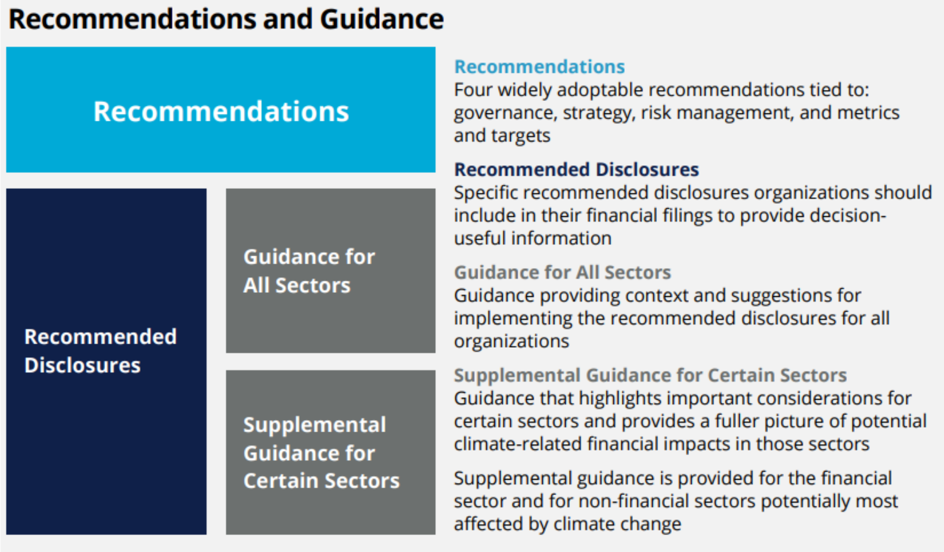
1. Governance
2. Strategy
3. Risk management
4. Metrics and targets

Recommended disclosures are supported by implementation guidance, split into general guidance and sector specific guidance as some sectors are considered more vulnerable to climate change. This structure is shown in Figures 4 and 5.

Figure 4: Thematic areas around TCFD

Source: TCFD

Figure 5: Structure of TCFD Recommendations



Source: TCFD

To whom does TCFD apply?

The Task Force recommends all financial and non-financial organisations with public debt and/or equity adopt its recommendations, regardless of industry. The report notes that asset owners and asset managers have an important role to play in influencing organisations to provide better climate-related financial disclosures as they sit at the top of the investment chain.

Financial sectors are defined as: Banks, Insurers, Asset Owners and Asset Managers. Non-financial sectors are defined as: Energy, Transportation, Materials & Buildings, and Agriculture, Food & Forest Products.

The Task Force recommends climate-related financial disclosures should be provided in publicly available annual reports, in line with national financial disclosure requirements. Disclosures related to 'Strategy' and 'Metrics & Targets' should include an assessment of materiality, and information should only be disclosed if deemed material. Disclosures related to 'Governance' and 'Risk Management' are recommended to be included in annual financial filings, independent of an assessment of materiality

In addition, the Task Force encourages organisations to disclose climate-related information included in TCFD, even if this information is already being reported under other frameworks.

The UK Government has gone even further, insisting that all public companies, large private companies and all LLPs should comply with TCFD.

Climate-related risks, opportunities and financial impacts

A key goal of the TCFD is to help stakeholders better understand how climate-related risks and opportunities impact an organisation's future financial position, in turn enabling them to make informed financial decisions. To do so, TCFD has defined categories for climate-related risks and opportunities that aims to standardise existing climate-related disclosure frameworks.

TCFD categorises climate-related risks and opportunities into the following:

- two broad types of climate-related risks: **physical and transition risks**; and
- several areas of climate-related opportunities: **resource efficiency, energy source, products and services, markets and resilience**.

The financial impacts of climate-related Issues on an organisation are dependent on the specific risks and opportunities of which the organisation is exposed to and the strategic and risk management decisions on how these risks are managed. Specifically, the Task Force has identified revenues, expenditures, assets and liabilities and capital and financing as categories through which an organisation's financial position may be affected (Figure 6).

Figure 6: TCFD identified structural risks

Source: TCFD

As a result of the complexity of identifying issues, potential impacts and disclosing material issues in financial filings, the Task Force encourages organisations to consider incorporating scenario analysis into strategic planning and risk management strategies in order to consider the potential financial impacts of climate change, with a greater emphasis on forward-looking analysis.

The table below explains climate-related risks and opportunities further.

Figure 7: Examples of climate-related risks

Type	Climate-related risk	Example
Transition	**Policy and legal:** the risk from emerging regulation aimed at addressing climate change or litigation risk	Canada will impose a carbon pricing scheme by 2018. This has cost implications for many industries, including car and industrial manufacturing, mining, oil and gas. It also has implications for the demand for carbon-intensive products and services, and therefore sector revenues.
	Technology: the risk from emerging technologies aimed at supporting the global low carbon transition	Innovations and technological progress, e.g. in renewable energy or electric vehicles will have implications for the business models of many companies in related sectors, reducing costs of electricity production or increasing capital or research and development expenditure as companies look to compete and respond.
	Market: the risk from shifting supply and demand curves as economies react to climate change	As the costs of renewable energy drop, the world has seen a corresponding increase in its adoption. In 2015, renewables represented 54% of all new capacity installed globally – the first time it has pulled ahead of fossil fuels[2].
	Reputation: the risks of damage to brand value and loss of customer base from shifting public sentiment about climate change	A global movement has seen commitments from investors responsible for $5 trillion to pledge divestment from fossil fuel companies in one way or another[3]. This could contribute to a reduction in capital available for such companies.
Physical	**Acute:** the risk of increasing severity of weather events	A leading British supermarket chain has found that 95% of its supply chain is vulnerable to disruption by climate change impacts with an estimated £360m of value at risk[4].
	Chronic: the risk of longer term changes in weather patterns and other climate change impacts	

[2] Global Trends in Renewable Energy Investment 2016, UNEP FI and Bloomberg New Energy Finance
[3] The Global Fossil Fuel Divestment and Clean Energy Investment Movement, 2016, Arabella Investors
[4] The Challenge of a Changing Climate, 2014, ASDA

Source: PWC

Key disclosure items under TCFD

Please note these items have been summarised and exclude supplemental guidance. Please refer to the TCFD website for the full guidance.

Governance disclosures

Companies are asked to disclose the extent of the board's and management's oversight of climate-related risks and opportunities as illustrated in Figure 8.

Figure 8: TCFD Governance disclosures

Recommended disclosures	Key guidance for all sectors
Describe the board's oversight of climate-related risks and opportunities.	The process and frequency by which board committees, such as the audit committee, and management are kept informed about climate-related issues. How climate change issues are considered when reviewing the company's performance, strategy and business plans at a Board level. How progress against goals and targets addressing climate-related issues are monitored and overseen at a Board level.
Describe management's role in assessing and managing risks and opportunities.	How management monitors climate-related issues. Whether the organisation has assigned climate-related responsibilities to management level positions, and a description of the associated organisational structure(s). The audit committee's role in overseeing climate-related financial disclosures should be the same as with any other financial disclosure.

Source: finnCap

Strategy disclosures

If companies deem climate change to be material to their business, they are recommended to disclose as illustrated in Figure 9.

Figure 9: TCFD Strategy disclosures

Recommended disclosures	Key guidance for all sectors
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Describe short, medium and long term in the context of the organisation and the specific climate-related issues for each time horizon that could have a material financial impact. Description of the processes used to determine which risks and opportunities could have a material financial impact.
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Discuss how identified climate-related issues have affected businesses, strategy and financial planning, including the impact on products and services, supply chain, mitigation activities and R&D investment. Describe how climate issues influence the financial planning process and how these issues are prioritised. Describe the climate-related scenario analysis model if used.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	The Task Force encourages the organisation to apply forward-looking scenario analysis to help the discussion of where their strategies may be affected by climate-related risks and opportunities and how these strategies might change to address these potential risks and opportunities.

Source: finnCap

Risk Management disclosures

TCFD requires organisations to disclose how the organisation identifies, assesses and manages climate-related risks. A summary is illustrated in Figure 10.

Figure 10: TCFD Risk Management disclosures

Recommended disclosures	Key guidance for all sectors
Describe the organisation's processes for identifying and assessing climate-related risks	This includes the process for determining their relative significance in relation to other risks.
Describe the organisation's processes for managing climate-related risks.	This includes the process for prioritising climate-related risk. Need to detail how materiality determinations are made.
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Describe if any other existing and emerging climate-related regulatory requirements are also considered by the organisation. Organisations that already report climate-related information under other frameworks and who may be able to disclose under this framework immediately are encouraged to do so.

Source: finnCap

Metrics and guidance disclosures

Where organisations deem climate change to be material, organisations are expected to disclose the metrics and targets used to assess and manage climate-related risks and opportunities. A summary is illustrated in Figure 11.

Figure 11: TCFD Metrics and Guidance disclosures

Recommended disclosures	Key guidance for all sectors
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Provide KPIs used to measure and manage climate-related risks and opportunities, with consideration to water, energy, land use and waste management. Where climate-related issues are material, consider how related performance metrics are incorporated into remuneration policies. Provide historical metrics to allow for trend analysis.
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Disclose present, and if possible historic, Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, measured in line with GHG Protocol methodology, alongside industry specific GHG efficiency ratios.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Describe key climate-related targets (eg GHG emissions, water usage, energy usage, etc) and their performance against anticipated regulatory requirements or market constraints or other goals.

Source: finnCap

TCFD mapping onto other ESG standards

TCFD has not been developed in a vacuum: the targets and metrics deliberately map onto the UN Sustainable Development Goals (SDGs), which themselves are the backbone of many ESG standards and frameworks. We illustrate this cross-mapping in Figure 12. A company already adhering to SASB or GRI or ISO 14001, for instance, will already comply with a significant chunk of TCFD.

Figure 12: TCFD maps onto 6 SDGs, which in turn map onto many other ESG standards

3.9	9.4	12.4	13.1	13.2	15.2	16.7
CERES	CDSB	CERES	BTB	CDP	CDP	AMI
EULEG	CERES	EULEG	CDP	CDSB	EULEG	CERES
GBP	CPD	GBP	CDSB	GBP	GBP	GRI
GRESB	EULEG	GRESB	EULEG	IPIECA	GRESB	IPIECA
GRI	GBP	GRI	GBP	OECD	GRI	U4SSC
IPIECA	GRESB	IPIECA	GRESB	SASB	IPIECA	UNCTAD
IRIS+	GRI	IRIS+	GRI	SECR	IRIS+	
ISO 14001	IPIECA	ISO 14001	IPIECA	U4SSC	ISO 14001	
OECD	IRIS+	SASB	IRIS+		SASB	
SASB	SASB	SDI	ISO 14001		SDI	
SDI	SDI	U4SSC	OECD			
	SECR	UNCTAD	OPF			
	UNCTAD		SASB			
			SDI			
			U4SSC			

Source: finnCap, TCFD

SDG Goal 3

Ensure healthy lives and promote well-being for all at all ages. Specifically, 3.9 says "By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination".

SDG Goal 9

Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation. Specifically, 9.4 says "By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities".

SDG Goal 12

Ensure sustainable consumption and production patterns. Specifically, 12.4 says "By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment".

SDG Goal 13

Take urgent action to combat climate change and its impacts. Specifically, 13.1 says "Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries". 13.2 says "Integrate climate change measures into national policies, strategies and planning".

SDG Goal 15

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss. Specifically, 15.2 says "By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally".

SDG Goal 16

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels. Specifically, 16.7 says "Ensure responsive, inclusive, participatory and representative decision-making at all levels".

For convenience, we have included an 'acronym decoder' in Figure 13 to better illustrate on to which standards TCFD maps.

Figure 13: ESG acronym decoder

Acronym	Definition / full name	Acronym	Definition / full name
AMI	Access to Medicine Index	IRIS+	IRIS+ metrics to measure impact
BTB	Behind the Brands	ISO 14001	ISO 14001 Environmental Management Systems
CDP	Carbon Disclosure Project	OECD	Organisation for Economic Cooperation and Development
CDSB	Climate Disclosure Standards Board	OPF	UN Global Compact - Oxfam Poverty Footprint
CERES	The Ceres Roadmap for Sustainability	SASB	Sustainable Accounting Standards Board
EULEG	EU Taxonomy	SDI	SDI Asset Owner Platform (SDI)
GBP	The Green Bond Principles	SECR	Streamlined Energy and Carbon Reporting
GRESB	Global Real Estate Sustainability Benchmark	U4SSC	United for Smart Sustainable Cities
GRI	Global Reporting Initiative	UNCTAD	United Nations Conference on Trade and Development
IPIECA	International Petroleum Industry Environmental Conservation Association		

Source: finnCap

Overall implications for organisations

In our view, the key issues companies need to take heed of are as follows:

- The Task Force recommends climate-related financial disclosures should be provided in a company's mainstream financial filings;
- It is up to the company to determine materiality of any climate-related risks or opportunities they face and disclose their assessment of this;
- Information relating to the strategy and metrics and targets should be disclosed if material, while governance and risk management should be provided in annual financial filings, independent of an assessment of materiality;
- The Task Force recommends that organisations in the Energy, Transportation, Materials and Buildings, and Agriculture, Food & Forest Products sectors which have more than US$1bn equivalent in annual revenue should disclose information regarding 'Strategy' and 'Metrics & Targets' in other reports when the information is not deemed material and not included in financial filings;
- The Task Force intends for disclosure to foster shareholder engagement and broader uses of climate-related financial disclosures;
- The Task Force expects the processes for these disclosures to be similar to those used for existing public financial disclosures, likely involving a review by the CFO and Audit Committee where appropriate;
- If certain elements of TCFD disclosure are incompatible with national requirements for financial disclosures, the Task Force encourages organisations to disclose these elements in other official company reports that are available to investor and others, subject to internal governance processes; and
- Organisations already reporting climate-related information under other frameworks may be able to disclose under this framework immediately and are encouraged to do so.

finnCap scorecard 2021 vs 2020: incremental progress

- In 2020, we created a simple ESG scorecard for companies based around 15 datapoints, 5 in each of E, S and G. As far as possible, these data points are quantitative, unambiguous, uncontroversial, easily obtained and – hopefully – meaningful. Once again we have collected these data points on nearly c100 quoted companies and are in a position to compare 2021 vs 2020. The results are set out in this section.
- Despite all the attention given to climate and ESG issues over the last twelve months, changes at the corporate level are somewhat incremental: but it is pleasing to see a measurably greater adoption rate of the key policies (environmental, discrimination, community outreach and ethics) while boardroom diversity is steadily improving from a low level. The biggest y-o-y change is a collapse in CO_2 emissions thanks to an absence of commuting and business travel.
- A key observation we made in 2020 is still true today: where there is scrutiny there is compliance. Sectors that have been under public/investor pressure to 'do better' score higher than expected in our survey. The good showing of the Industrials sector as a whole is a case in point, despite the inherent disadvantages of its Environmental footprint. That all sectors do well on Governance is a clear reflection of investor focus in this area
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finnCap ESG scorecard: a recap

Understanding the ESG picture on a company is undoubtedly a complex exercise. For instance: Sustainalytics collects over 200 data points on a business to compute its score; to become B-Corp certified there are c300 searching questions that must be answered about environmental footprint, social policies etc.

As a tentative first step in gathering data on this subject, in 2020 we created a far less onerous scorecard, based around 15 datapoints, five in each of E, S and G (Figure 14). As far as possible, these data points are quantitative, unambiguous, uncontroversial, easily obtained and – hopefully – meaningful. Experience suggests that 10 of the 15 datapoints can usually be found in a company's annual Report & Accounts filing. The balance required a response from the company.

Figure 14: finnCap company ESG Scorecard

Environmental	units	comments
Energy consumption	MWh/£m	Energy consumption per unit of revenue
CO2 production	tonnes/£m	CO2 production per unit of revenue
Water consumption	m3/£m	Water consumption per unit of revenue
Waste production	tonnes/£m	Waste production per unit of revenue
Has an environmental or sustainability policy?	yes/no	
Social	**units**	**comments**
Employee turnover rate	%	Proportion of employees leaving the business in the last FY
% tax paid	%	Percentage of profits paid in corporation taxes
Has discrimination policy?	yes/no	
Has community outreach policy?	yes/no	
Has ethics policy?	yes/no	
Governance	**units**	**comments**
% women on board	%	Proportion of women currently sitting on the board
% independent directors on board	%	Proportion of independent directors on the board
CEO pay as multple of UK median	x	CEO cash compensation divided by UK median pay of £30k
Is CEO and Chairman/President role split?	yes/no	
Adheres to QCA code for Corp Governance?*	yes/no	If company HQ located outside UK, use domestic equivalent

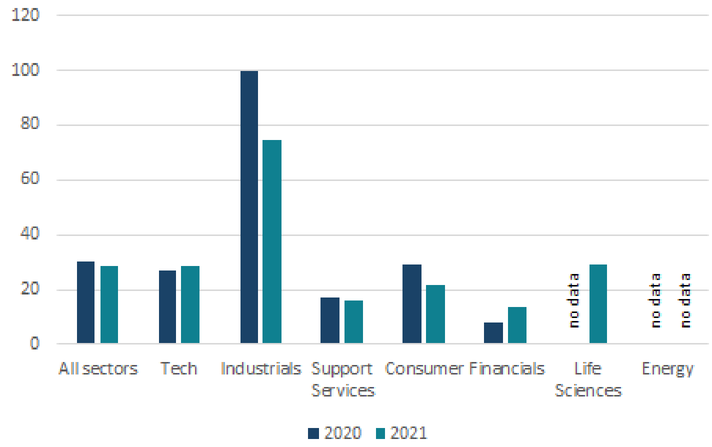
Source: finnCap

How the sectors stack up on the Scorecard metrics and how things have evolved since 2020

- We sent the scorecard to all the companies that we have under coverage. A few companies did not want to participate, while a few others were unable to get us the required data in time. **Ultimately, we received 103 scorecards (versus 102 in 2020) from across the sectors** we cover, and the sector-level results are presented below, along with the 2020 'datum' values.
- **A health warning on the data**: while we were able to obtain virtually all the data on the Social and Governance factors, the Environmental factors were another matter. Of the 103 scorecards we received, only **45** (33 in 2020) were able to provide any environmental data at all. Within that, only **15** (7 in 2020) were able to provide all the data! We highlight in the discussion below where we need to be cautious about drawing conclusions. Of course, finding data that is consistent and that can be compared across industries is one of the major challenges of ESG measurement and analysis.

ENVIRONMENT: Energy Consumption

Figure 15: Median energy intensity by sector (MWh/£m), 2021 vs 2020 datum

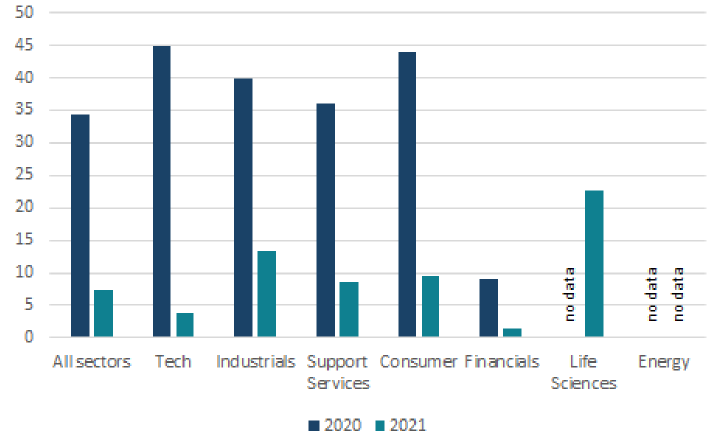


Source: finnCap

- **Measurement**: total power consumption in last completed year (MWh) divided by total revenue in the same year (£m) to give a measure of the energy intensity of a business. Ironically, no data was available for Energy companies. We have our first data points for the Life Science sector this year, albeit only 2 companies (of 14) were able to provide this. Across all sectors, **45** companies in total were able to provide this information (up from 27 in 2020).
- **Interpretation**: **median energy intensity across all sectors was 29MWh/£m** (30MWh/£m in 2020), with an average of 106MWh/£m (113MWh/£m in 2020), reflecting the high proportion of Industrial companies that provided data relative to other sectors. **It seems intuitively correct that the Industrials sector should be the sector with the highest energy intensity** (median 75MWh/£m, average 214MWh/£m) as industrial processes tend to require lots of power to run machinery and/or heat to drive chemical processes. At the other end of the spectrum, businesses that are largely centred on office work such as Financials would be expected to have low energy intensity and that proves to be the case here.
- **Change versus 2020**: overall energy intensity was similar in 2021 versus our 2020 datum. We did not expect to see much change y-o-y: changing energy intensity is quite fundamental, requiring investment in energy saving systems and equipment or, indeed, a change in the nature of the business. At a sectoral level, y-o-y variations seem to be explained by an evolving mix of companies in our survey.

ENVIRONMENT: Carbon Dioxide Emissions

Figure 16: Median CO_2 intensity by sector (tonnes/£m), 2021 vs 2020 datum

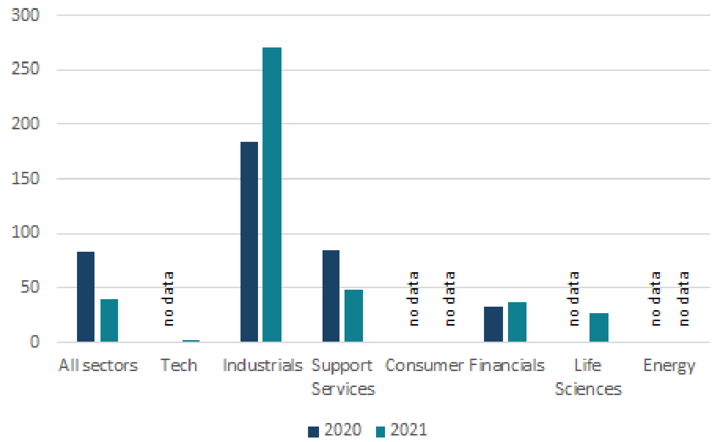


Source: finnCap

- **Measurement**: total CO_2 emissions in the last completed year (tonnes) divided by total revenue in the same year (£m) to give a measure of the carbon intensity of a business. No data was available for Energy companies. **44** companies in total were able to provide this information (up from 23 in 2020).
- **Interpretation**: **median carbon intensity across all sectors was 7 tonnes/£m**, (34 tonnes/£m in 2020), with an average of 92 tonnes/£m (175 tonnes/£m in 2020). The story here is the stunning drop y-o-y, which we discuss below. In terms of the shape of the data, it reflects the high proportion of Industrial companies that provided data relative to other sectors. With few data points, we can only make a few general observations. That the Industrials median is similar to all sectors seems surprising but is explained by a very wide dispersion of values. This reflects a very wide range of businesses in the sector from light assembly (very low carbon intensity) through to energy-intense manufacturing and transformation processes (high carbon intensity). The Industrials average of 250 tonnes/£m is perhaps more indicative.
- **Change versus 2020**: out of all 15 ESG metrics we track on the scorecard, this is the one with the greatest change y-o-y. How can CO_2 intensity have dropped c80% y-o-y across the companies sampled? The answer is of course the pandemic. We ask companies to provide Scope 1 and 2 emissions data, which includes business travel and employee commuting. **With business travel banned for much of 2020 and many people working at home, the result is this stunning drop in emissions**. We would find it hard to believe had we not seen the data for finnCap, which paints a similar picture. **Business travel and commuting are responsible for a surprising amount of CO_2 emissions for tech, services and light industrial businesses**.

ENVIRONMENT: Water Consumption

Figure 17: Median water intensity by sector (m^3/£m), 2021 vs 2020 datum

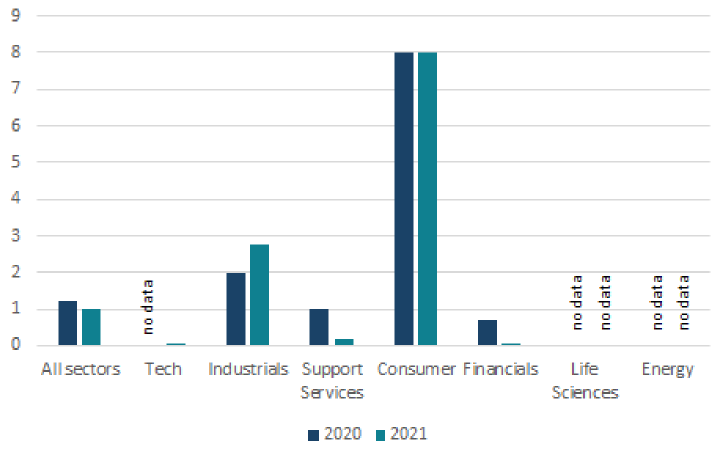


Source: finnCap

- **Measurement**: total water consumption in the last completed year (m^3) divided by total revenue in the same year (£m) to give a measure of the water intensity of a business. No, or very limited, data was available for Life Science, Energy, Consumer or Tech companies. **22** companies in total were able to provide this information (up from 16 in 2020), the majority being in the Industrials, Support Services and Financials sectors.
- **Interpretation**: **median water intensity across all sectors was 40m^3/£m**, (85 m^3/£m in 2020). There was a greater dispersion of results for this factor than any other: a range of 10-100m^3/£m covered all businesses with office or light industrial operations. The biggest outliers (by several orders of magnitude) were agricultural operators and basic food producers, particularly if operations required irrigation.
- **Change versus 2020**: as with CO_2, there is a substantial y-o-y drop (in this case c50%) which is also explained by the pandemic. We know from finnCap data that a considerable amount of water consumption for office-based businesses (most tech, support services, light industrial) is driven by employees using the facilities and, with many working from home over the period analysed, this consumption is not captured in the company data.

ENVIRONMENT: Waste Production

Figure 18: Median waste intensity by sector (tonnes/£m), 2021 vs 2020 datum

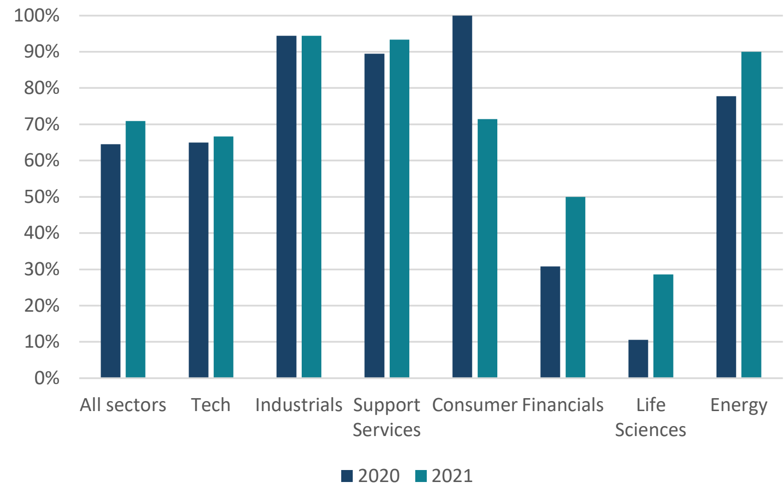


Source: finnCap

- **Measurement**: total waste to landfill in the last completed year (tonnes) divided by total revenue in the same year (£m) to give a measure of the waste intensity of a business. No data was available for Life Science, Energy or Tech companies. 20 companies in total were able to provide this information (13 in 2020), the majority being in the Industrials, Financials and Support Service sectors.
- **Interpretation**: **median waste intensity across all sectors was 1 tonne/£m**, with an average of 4 tonnes/£m. We have very few data points to work with so conclusions are very general. However, it is interesting to see the Consumer sector with the greatest waste intensity, perhaps reflecting issues with packaging and stock becoming obsolete/spoiled faster than in other industries. At the other end of the spectrum, it was pleasing to identify two companies that have become genuinely 'zero waste': **MP Evans** and **Accsys**.
- **Change versus 2020**: there is not enough data to make meaningful conclusions from the very limited change in the data y-o-y. What is surprising is how few companies are able to provide us with this data given as the focus on sustainability and the increasing cost of landfill.

ENVIRONMENT: Environmental Policies

Figure 19: % companies by sector with an environmental policy, 2021 vs 2020 datum

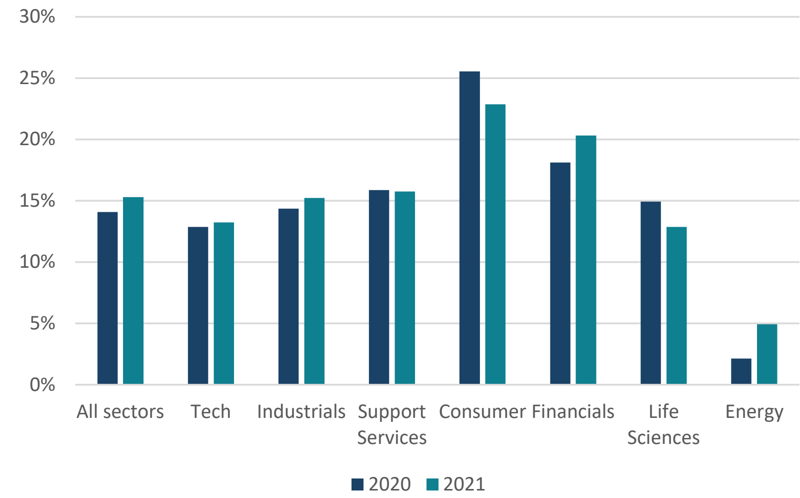


Source: finnCap

- **Measurement**: we asked companies whether they had an environmental policy or not.
- **Interpretation**: **across all sectors, 71% of companies had an environmental policy, up from 63% in 2020**. It was interesting to note that the sectors that are generally thought to have the highest environmental impact (namely Energy, Industrial) are those that have acted fast to develop appropriate policies for mitigation. Indeed, **94% of Industrial companies** had an environmental policy, as did **90% of Energy companies**. Relatively few Financial or Life Science companies have developed a policy yet, possibly reflecting their perceived minimal impact on the environment.
- **Change versus 2020**: the number of companies with an environmental policy is up 10% y-o-y. While maybe not revolutionary, it is at least moving in the right direction, with progress in all sectors, particularly financials and life science (albeit off a low base). The apparent backwards step in the Consumer sector is entirely due to the mix of companies surveyed this year.

SOCIAL: Employee turnover

Figure 20: Average employee turnover by sector (%), 2021 vs 2020 datum



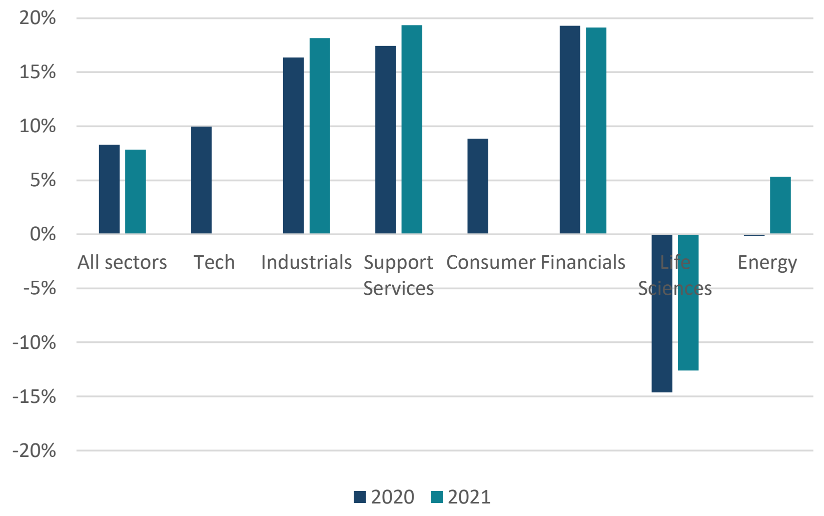
Source: finnCap

- **Measurement**: number of leavers in the last full year divided by the total number of employees expressed as a percentage. Half of the companies surveyed were able to provide us with this data.

- **Interpretation: employee turnover across all sectors was 15%, up marginally from 14% in 2020.** Differences between sectors was similar to last year, with Consumer remaining elevated at 23%, perhaps driven by seasonal working requirements and by the sector being hit harder than others by COVID-19 lockdowns (although CJRS is likely to have mitigated this). Financials was also relatively high at 20%, whilst employee turnover in the Energy sector remained remarkably low.
- **Change versus 2020**: Given the pandemic, we might have expected far higher employee turnover, although Government job retention measures are likely to have mitigated what could have been much more serious levels of job losses.

SOCIAL: Tax paid

Figure 21: Average tax rate paid over last three full years by sector, 2021 vs 2020 datum

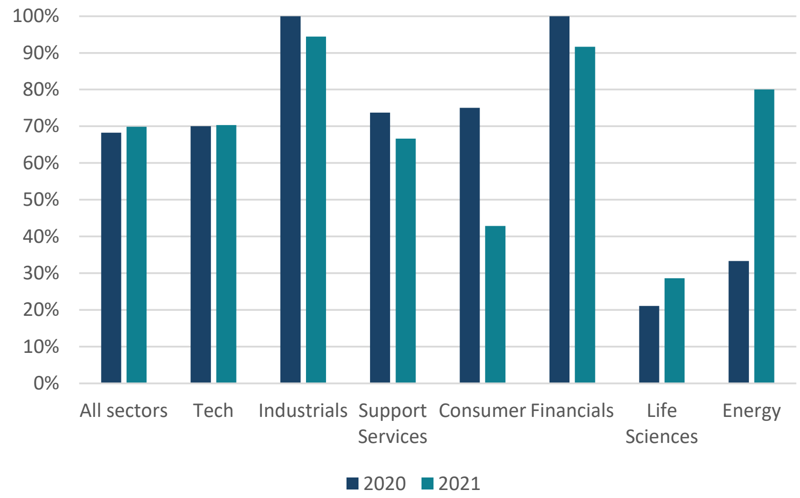


Source: finnCap

- **Measurement**: tax paid divided by adjusted pre-tax profits (%) for the last three full years.
- **Interpretation: average tax rate across all sectors was 8%, in line with 2020.** This compares to a UK corporation tax rate of 19%. Those sectors with the most mature, profitable businesses pay an average rate of tax similar to the UK corporate rate (Industrials, Support Services and Financials). Tech and Consumer contain a mix of established businesses, early-stage businesses and a number that are utilising previous tax losses or are unprofitable, particularly over the last 12 months. The Life Sciences sector stands out as being a group of businesses that are all pre-profit and benefitting from material tax credits, equivalent to c. 13% of pre-tax losses.
- **Change versus 2020**: at a sector level, tax rate fell sharply in Tech (likely due to the inclusion of a number of new, smaller companies this year) and Consumer which will have seen a number of companies turn loss making due to coronavirus restrictions.

SOCIAL: Discrimination policy

Figure 22: % companies by sector with a discrimination policy, 2021 vs 2020 datum

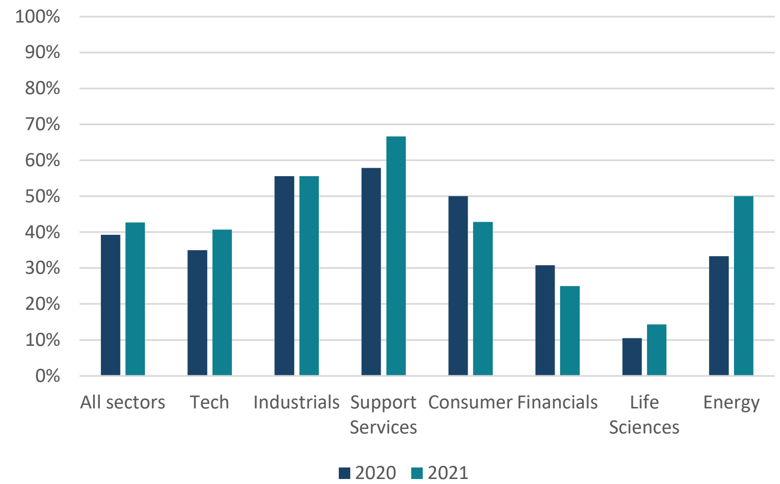


Source: finnCap

- **Measurement**: we asked companies whether they had a discrimination policy or not.
- **Interpretation: across all sectors, 71% of companies had a discrimination policy, up from 67% in 2020.** Interestingly there weren't any sectors where all companies had a discrimination policy, though two sectors that are often considered 'male dominated', Financials and Industrials, are the two sectors which are best represented, possibly in an attempt to move away from perceived male dominance. Life Sciences is an outlier where fewer than a third had policies in place.
- **Change versus 2020**: At an aggregate level there is not a great deal of change but at least it is going in the right direction. Consumer has seen a steep decline (albeit this is likely driven by the change in mix of companies surveyed this year) offset by Energy seeing a strong uptick to 80%, a step change from 33% last year.

SOCIAL: Community outreach policy

Figure 23: % companies by sector with a community outreach policy, 2021 vs 2020 datum



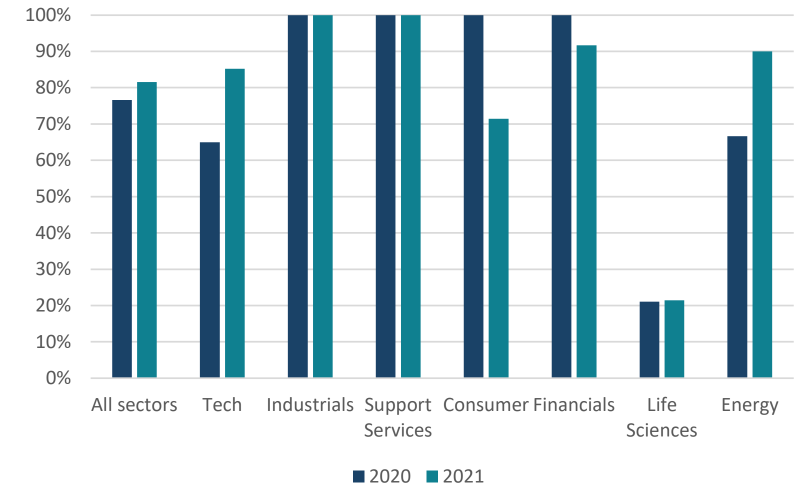
Source: finnCap

- **Measurement**: we asked companies whether they had a community outreach policy or not.
- **Interpretation: across all sectors, 43% of companies had a community outreach policy, up from 38% in 2020.** Across the board fewer companies have adopted community outreach initiatives vs internal discrimination and ethics policies and this is something that could be worth addressing to get local community 'buy-in'. Industrials and Support Services perform better than the average, as with other social policies. Once again, Life Sciences are notably under-represented with only 14% of companies offering such programmes.

- **Change versus 2020**: It is pleasing to see an uptick in the number of companies implementing community outreach policies, though there is still a long way to go, particularly with the Consumer and Financials sectors seeing a modest reduction. Life Sciences, Tech and Support Services all saw modest increases, whilst Energy moved up to 50% (from 33% last year).

SOCIAL: Ethics policy

Figure 24: % companies by sector with an ethics policy, 2021 vs 2020 datum

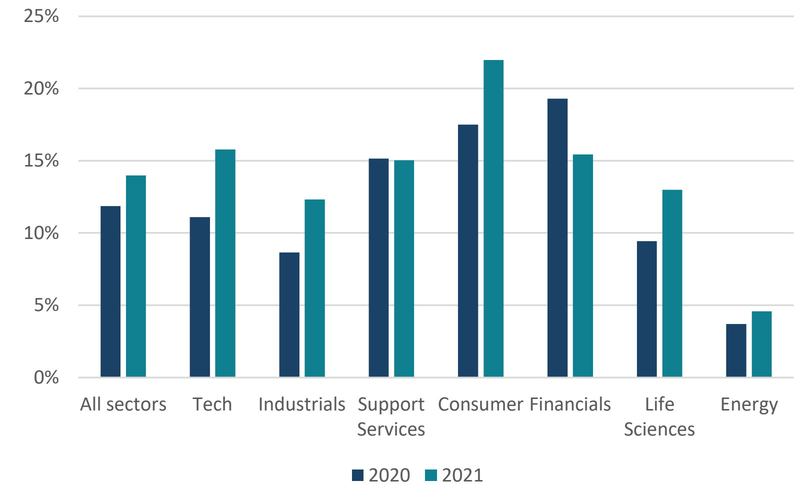


Source: finnCap

- **Measurement**: we asked companies whether they had an ethics policy or not.
- **Interpretation: across all sectors, 82% of companies had an ethics policy, up from 75% in 2020.** All companies in the Industrials and Support Services sectors had policies, whilst notably 90% of companies in the Financials and Energy sectors also had policies. Life Sciences was once again under-represented, with only 21% of companies offering such policies.
- **Change versus 2020**: At an aggregate level, it is encouraging to see such a strong uptick in companies with an ethics policy, with Tech and Energy leading the way with increases of 20ppts and 23ppts respectively. Consumer saw a notable decrease (probably driven by the mix of companies surveyed) whilst Life Sciences was unchanged over 2020.

GOVERNANCE: Proportion of female directors

Figure 25: Proportion of female directors on plc board by sector (%), 2021 vs 2020 datum



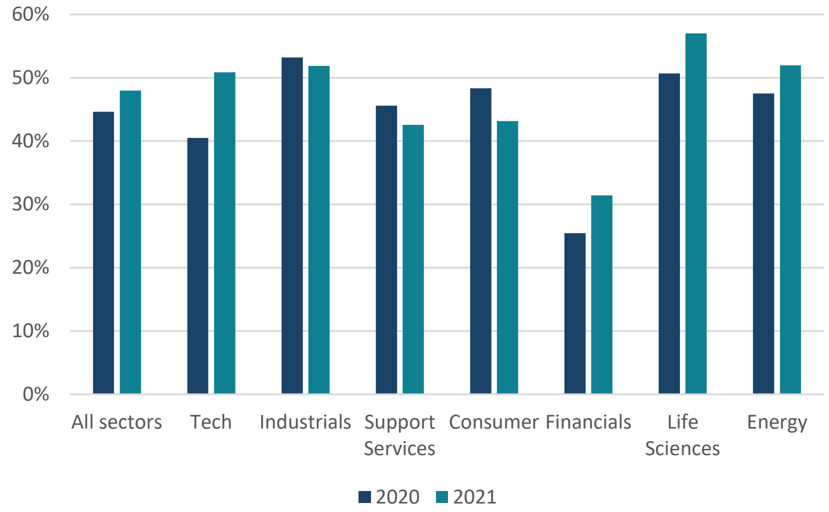
Source: finnCap

- **Measurement**: number of female directors as a percentage of all directors.

- **Interpretation: there was an average of 14% female directors across all sectors, up from 12% in 2020.** There wasn't a huge amount of dispersion at sector level, however there was at least one company in every sector without any female directors. Consumer had the highest proportion of female directors at 22%. Most other sectors had a proportion in the 12-16% range, whilst the perception of male dominance lives on in the Energy sector, with the average proportion of female directors just 5%.
- **Change versus 2020**: The marginal increase between 2020 and 2021 shows that only slow progress is being made and there is still a long way to go. Consumer made a respectable jump up from 18% to 22%, with Tech, Industrials and Life Sciences also meaningfully moving in the right direction.

GOVERNANCE: Proportion of independent directors

Figure 26: Proportion of independent directors on plc board by sector (%), 2021 vs 2020 datum

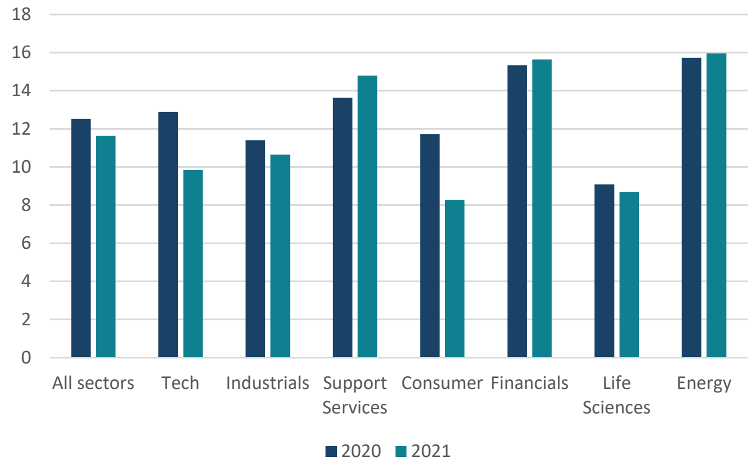


Source: finnCap

- **Measurement**: number of independent directors as a percentage of all directors.
- **Interpretation: there was an average of 48% independent directors across all sectors, up from 44% in 2020.** It is considered optimal that approximately half of directors are independent and all sectors fit into a notional 40-60% range with the exception of Financials, where on average, only 31% of directors are independent.
- **Change versus 2020**: In aggregate, this cohort of companies is close to the optimum 50:50 ratio. The main outlier is FInancials, but the sector has made a significant step in the right direction this year, moving from 25% to 31%.

GOVERNANCE: CEO pay

Figure 27: CEO pay as a multiple of UK median earnings by sector (x), 2021 vs 2020 datum

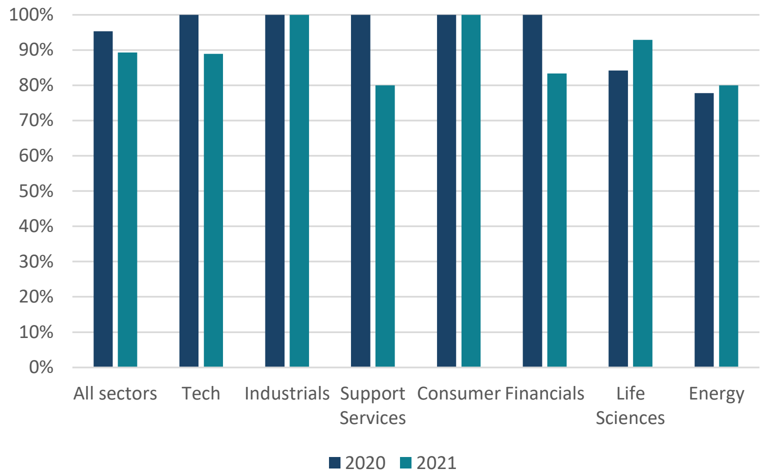


Source: finnCap

- **Measurement**: cash payments to the CEO (salary, bonus, other benefits) in the last full year, divided by UK median earnings (£30k).
- **Interpretation: CEO earnings averaged 11.6x UK median earnings across all sectors, down from 12.5x in 2020.** Consumer and Life Sciences had the lowest multiples at 8.3x and 8.7x respectively. The highest paid sectors were Financials and Energy at 15.6x and 16.0x respectively.
- **Change versus 2020**: four out of seven sectors saw reductions in CEO pay, whilst the other 3 only saw marginal increases. An explanation could be senior management agreeing to pay cuts over lockdown periods, and less being available for bonuses due to the pandemic. Consumer and Tech saw particularly steep decreases.

GOVERNANCE: Is the CEO and Chairman role split (%)

Figure 28: % companies where CEO and Chairman role is split by sector, 2021 vs 2020 datum

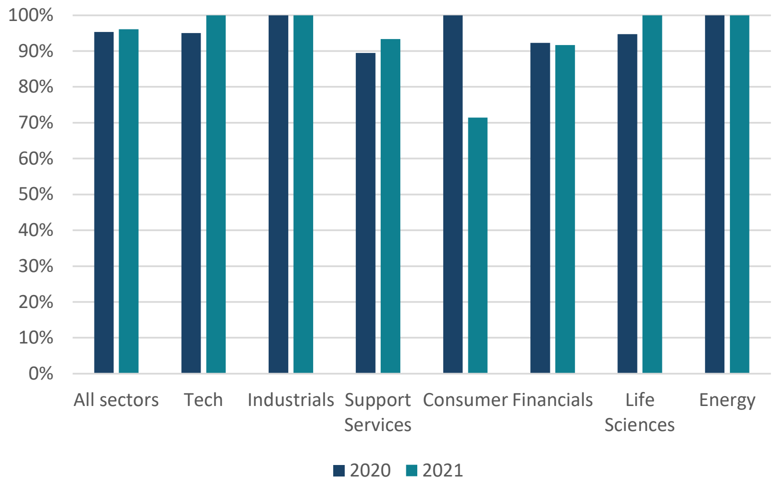


Source: finnCap

- **Measurement**: we checked whether the CEO role and the Chairman role was split.
- **Interpretation: the CEO and Chairman roles were split in 89% of the companies we surveyed, down from 95% in 2020.** This rose to 100% in the Industrials and Consumer sectors.
- **Change versus 2020**: proportion of companies in which the CEO and Chairman roles were split decreased largely across the board, rising only for Life Sciences and Energy from relatively low bases. Support Services saw the largest drop, moving from 100% to 80%.

GOVERNANCE: adheres to the QCA code (or equivalent)?

Figure 29: % companies adhering to QCA code (or equivalent) by sector, 2021 vs 2020 datum



Source: finnCap

- **Measurement**: we checked whether a company adheres to the QCA Corporate Governance code, or other similar standard if not based in the UK.
- **Interpretation: we found that 96% of companies surveyed adhere to the QCA Corporate Governance code (or equivalent), up marginally from 95% in 2020.** 100% of companies in the Tech, Industrials, Life Sciences and Energy sectors adhere to the code.
- **Change versus 2020**: Tech, Support Services and Life Sciences all saw increases in the proportion of companies adhering to the QCA code, Industrials and Energy remained at 100%, Financials saw a very marginal decrease whilst Consumer saw a considerable decrease from 100% to 71% (albeit this is likely due to the change in mix of companies surveyed this year).

Which sector is the most 'ESG compliant'?

We have noted the flaws in our Scorecard (specifically the amount of Environmental data we were able to collect) but we thought it would be interesting to get a sense of which sectors perform 'best' on an ESG basis at this point in time. We ranked all the sectors on the individual ESG factors and applied an equal weight to each factor. We were then able to rank the sectors by Environmental, Social and Governance performance as well as obtain an overall rank (Figure 30).

Figure 30: Which sectors score best in each category and ESG overall

Sector	Environmental Rank		Social Rank		Governance Rank		Overall ESG rank	
	2020	2021	2020	2021	2020	2021	2020	2021
Tech	4	2	5	5	3	2	5	2
Industrials	4	4	1	1	2	3	1	1
Support Services	2	2	2	2	5	6	4	3
Consumer	3	no score	4	6	1	3	2	no score
Financials	1	1	3	4	5	7	3	4
Life Sciences	no score	no score	7	7	3	1	no score	no score
Energy	no score	no score	6	3	7	5	no score	no score

Source: finnCap

We would highlight the following:

- **Environmental rank**: the **Financials sector once again has the best Environmental score**, based on very low consumption of energy and water and minimal CO_2 and waste production, albeit only half have environmental policies. The Industrials sectors came last (again), albeit for different reasons. Industrials are naturally heavy consumers of energy and water but do notably well on environmental policies. The Tech sector has significantly improved its position y-o-y as we had more data to analyse. We could not attribute a meaningful rank to Life Sciences, Consumer or Energy because of a lack of data.
- **Social rank**: after an inherent disadvantage with regards to Environmental footprint, **Industrials make up significant ground on the Social scores and come top overall** due to paying a full tax

rate and having the highest rate of discrimination, ethics and community outreach policies. Life Sciences comes last for the exact opposite reasons (net receiver of tax credits, and a minority of companies have the key social policies).

- **Governance rank**: **Life Sciences comes top in the Governance rank, up from no.3 last year** due to scoring very highly on all the factors. Financials comes last (no. 5 last year) due to the lowest proportion of independent directors, highest pay and some companies not splitting the CEO/Chairman roles. It is worth noting that while the rank is relative, **all sectors actually do quite well in absolute terms and we think this is no coincidence**: as we will see from the fund manager survey (next section), of all the ESG factors, **Governance is the one area all investors study in terms of making investment decisions**.

- **Overall ESG rank**: surprisingly, **the Industrials sector has the overall highest ESG rank, holding on to its no. 1 position in 2020**, overcoming its natural disadvantage with Environmental footprint by doing particularly well with Social and Governance factors. Next in terms of ranking are Tech, making a big improvement on 2020 largely due to more data being available, followed by Support Services, then Financials. Unfortunately, we were unable to give an overall rank to Consumer, Life Science or Energy due to lack of meaningful data.

- **Recommendations**: Based on this analysis, **we have three key recommendations for companies** looking to demonstrate their ESG credentials to potential investors: **i) obtain the key environmental datapoints** (energy, CO_2, water and waste), particularly for non-industrial businesses where there is likely to be little to be afraid of; **ii) prepare and apply the most important policies** (environmental, discrimination, ethics and community outreach); and **iii) continue to try to achieve greater diversity in the boardroom**. Armed as such, in our view, **most smaller companies will be able to look forward to the forthcoming ESG scrutiny with confidence**.

- **Special mentions**: something we noticed when compiling this data was how well some companies performed on ESG measures in areas where you would not expect it, the good showing of the Industrials sector as a whole being a case in point. **It is clear that companies operating in areas already under scrutiny are more advanced with ESG compliance than companies operating outside the spotlight**.

- Nowhere was this clearer than with palm oil producer, **M.P. Evans** (**MPE**). This is a sub-sector that, deservedly, has come under the spotlight for poor ESG practices for many years. **MPE aims to set the standards for the industry as a whole and these achievements are very clear in a survey such as this**: it is one of very few companies to be genuinely zero waste; it not only complies with all the key ESG policies but publishes these policies on its website; its community outreach programmes are some of the best we have seen. The section on sustainability on its website is outstanding and could offer ideas and inspiration to others: www.mpevans.co.uk/sustainability

- **Other special mentions**: year on year, it is pleasing to see a number of other companies starting to blaze an ESG trail. While far from a comprehensive list, the following caught our eye: **Maintel** (aligned to UN Sustainable Development Goals and measures progress through the WWG G17 Eco tracker – see Appendix 2), **Eleco** (publishes its finnCap scorecard in its annual report), **Ideagen** (committed to become carbon neutral), **Iomart** (committed to purchase Renewable Energy Guarantees of Origin (REGO) certified renewable electricity), **dotDigital** (became carbon neutral in 2020) and **Argo** (publishes a full climate strategy which includes sourcing all the power its uses for BitCoin mining from renewable sources by 2025). Remarkably, energy **company Integrated Oil & Gas** has pledged to be 'net zero' on a Scope 1& 2 basis from this year.

- **Company level data**: we have made a decision not to publish company level data, not least because a great deal of the Environmental data is somewhat tentative. However, we have a created a 'tear sheet' (Figure 31) to illustrate how a company stacks up against its sector and the wider small-cap market. **These tear sheets are available to companies and investors on request**.

Figure 31: Company ESG 'tear sheet' sample

finnCap — **ESG quartile: 1**

Basic Information

ticker	FCAP-GB
sector	Financials

ESG data

Environmental — **quartile: 1**

individual components of Environmental:	units	note	company value	actual/ estimate?	sector median	market median
Energy consumption	MWh/£m	1	17	actual	13	29
CO2 production	tonnes/£m	1	0	actual	1	7
Water consumption	m3/£m	1	25	actual	36	40
Waste production	tonnes/£m	1	-	actual	0	1
Has an environmental or sustainability policy?	yes/no	2	yes		50%	71%

Social — **quartile: 1**

individual components of Social:	units		company value	actual/ estimate?	sector average	market average
Employee turnover rate	%	1	14%	actual	20%	15%
% tax paid	%		26%	actual	19%	8%
Has discrimination policy?	yes/no	2	yes		92%	71%
Has community outreach policy?	yes/no	2	yes		25%	43%
Has ethics policy?	yes/no	2	yes		92%	82%

Governance — **quartile: 3**

individual components of Governance:	units		company value	actual/ estimate?	sector average	market average
% women on board	%		29%	actual	15%	14%
% independent directors on board	%		43%	actual	31%	48%
CEO pay as multple of UK median	x		23.0	actual	15.6	11.6
Is CEO and Chairman role split?	yes/no	2	yes		83%	89%
Adheres to QCA code for Corp Governance?	yes/no	2	yes		92%	96%

Tear Sheet notes
1. data is estimated when the company was not able to provide data. These are sector median values by default
2. sector and market level data is the percentage of companies in the survey answering 'yes' to the policy question

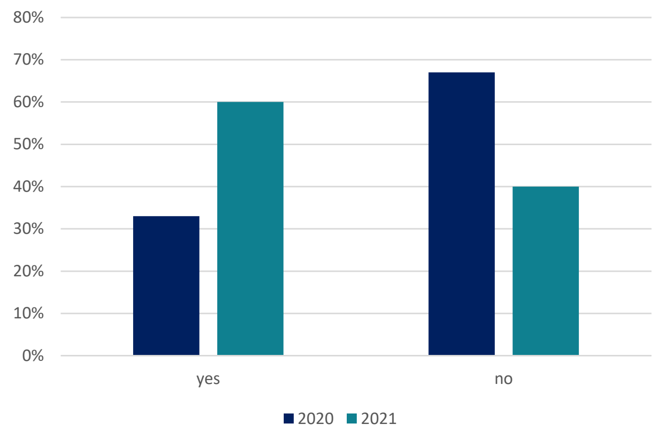
Source: finnCap

finnCap fund manager ESG survey 2021

- We present the results of our annual survey of fund mangers of UK smaller company funds to understand how attitudes are evolving towards the use of ESG factors in the investment process. The survey comprises seven questions which we sent to 25 managers. Approximately half responded.
- There are some considerable shifts in opinion year-on-year. One of the most dramatic is that ALL fund managers now appear to be using ESG factors in their portfolio decision-making process, up from 67% in 2020. Further, 80% of managers plan to further incorporate ESG factors in future.
- In terms of what aspect of ESG managers focus on, while Governance still leads, both Environmental and Social factors have made a huge stride forward 2021 vs 2020. 60% of fund managers now use these factors (up from 14% and 28%, respectively, in 2020).
- Attitudes seem to have shifted somewhat 2021 vs 2020 as to why ESG has been adopted. Risk management is now the dominant reason, while investor pressure is now a reason (it wasn't a reason at all in 2020).
- Another dramatic shift relates to fund marketing. ESG would now be front-and-centre in the marketing message for a new fund. ALL respondents said ESG would either be at the forefront or a significant part of the marketing message for a new fund, up from 43% in 2020.

Question 1: Did you incorporate ESG into your portfolio decision-making process 3 years ago?

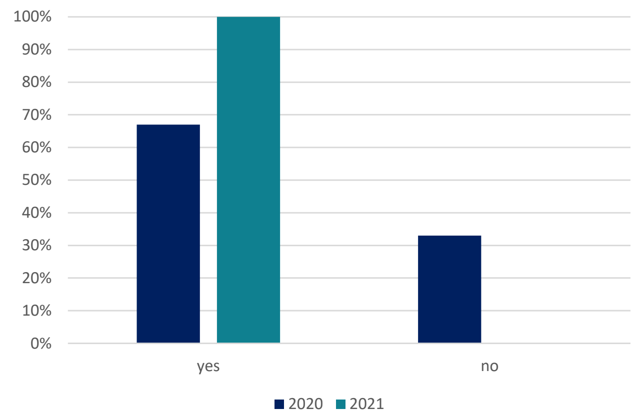
Figure 32: It appears that many fund managers started including ESG factors in portfolio decision-making processes about three years ago



Source: finnCap

Question 2: Do you incorporate ESG factors into your portfolio decision-making process now?

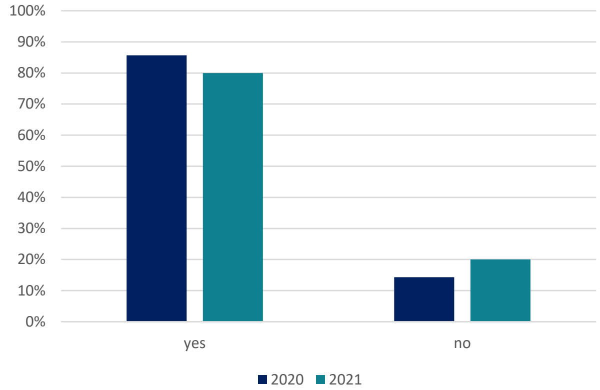
Figure 33: 2021 seems to be a landmark year where all fund managers are now applying ESG factors in the portfolio decision-making process



Source: finnCap

Question 3: Do you plan to further incorporate ESG factors into your portfolio decision-making process in future?

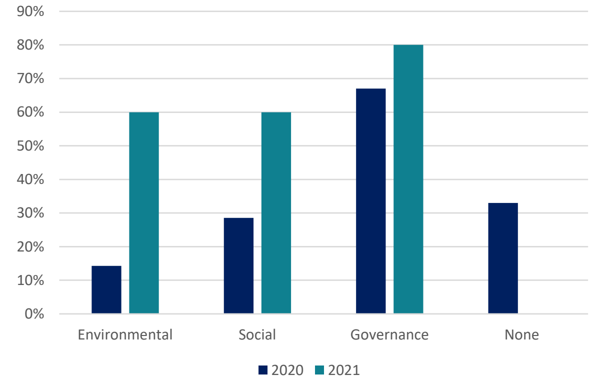
Figure 34: There appears to be a great deal of commitment to continue integrating ESG factors into portfolio decisions going forward



Source: finnCap

Question 4: What are the main ESG factors that you currently incorporate into your decision-making process?

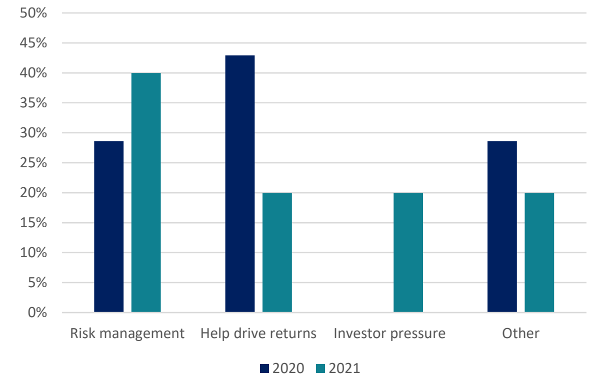
Figure 35: While Governance factors still lead, both Environmental and Social factors have made a huge stride forward 2021 vs 2020. 60% of fund managers now use these factors



Source: finnCap

Question 5: If you adopt ESG factors now, what is the biggest driver behind your adoption of these factors?

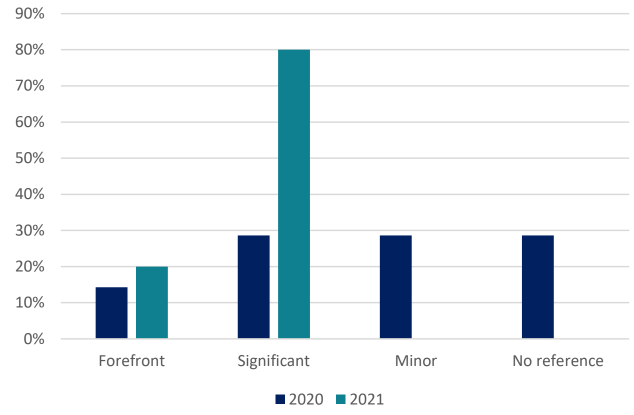
Figure 36: Attitudes seem to have shifted somewhat 2021 vs 2020 as to why ESG has been adopted. Risk management is now the dominant reason (was driving returns), while investor pressure is now a reason (it wasn't a reason at all in 2020)



Source: finnCap

Question 6: If you were launching a new fund now, would ESG be a prominent part of the marketing message?

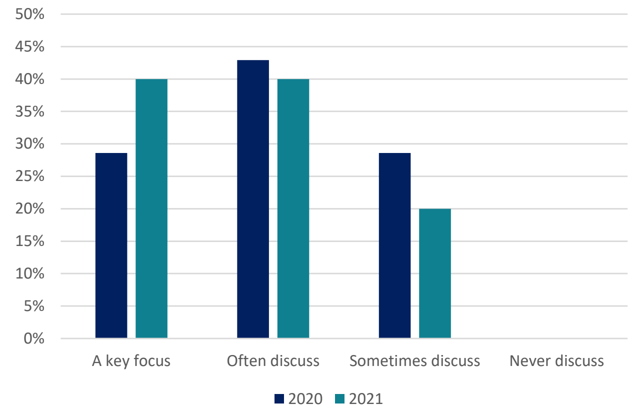
Figure 37: A huge sea-change this year. ESG would now be front-and-centre in the marketing message for a new fund. All respondents said ESG would either be at the forefront or a significant part of the marketing message for a new fund, up from 43% in 2020



Source: finnCap

Question 7: Do you actively pressure companies in your fund(s) to become more ESG compliant?

Figure 38: The pressure is incrementally ramping up on companies. ESG is now key focus of company meetings for 40% of fund managers (up from 29% in 2020). Interestingly, no fund managers said that they never discuss ESG with companies



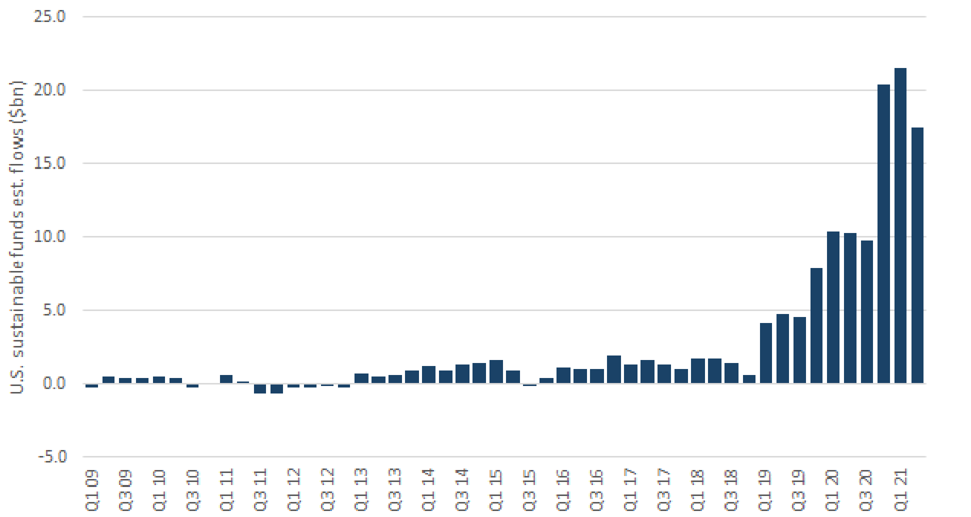
Source: finnCap

ESG funds landscape: AUM flows and performance

- Funds with a specific 'ESG' flavour continue to go from strength to strength: global inflows doubled to US$367bn in 2020 versus 2019, which itself was triple 2018 levels. At current run rates, 2021 inflows could be double 2020 levels.
- This accelerating inflow dynamic is very evident in the UK, Europe and the US. Any suggestion that interest in ESG was simply driven by the onset of the pandemic seems false, given that inflows continued to break new records well into 2021. One statistic to illustrate this: while AUM in UK equities has increased +13% since July 2019, AUM in UK responsible investments has increased by +225%.
- While the pandemic has clearly been a big catalyst, other powerful drivers include: i) some evidence that these funds produce better returns at lower risk; ii) extreme weather events are playing into the climate change thesis; and iii) baby boomer wealth is gradually being transferred to younger investors and they have a greater propensity to invest on an ESG-compliant basis.
- The fund management industry is rapidly adapting to this apparent megatrend: various surveys (including our own – see previous section) highlight that incorporation of ESG factors into the investment process is now de rigueur, while fund managers have moved to release more specialist ESG-focused funds that are run alongside their existing funds, in order to appeal to the more ESG-conscious investor base. In fact, we would go so far as to suggest that it would now not be possible to launch a new fund in Europe without being able to demonstrate its ESG credentials.

ESG has gone mainstream in the investment industry

Figure 39: US sustainable funds quarterly flows (US$bn) – it really is different this time



Source: Morningstar

Pioneering ESG funds as we know them today came into existence in the early 1990s. Starting out relatively slowly, they began to gather momentum, and over the past decade, we have seen record levels of ESG fund inflows and ESG fund inceptions. **In 2020, we estimate that ESG funds globally increased AUM organically by US$367bn, double that in 2019, which itself was triple 2018**. This momentum shows no sign of waning in 2021, with AUM increasing US$324bn in H1 alone.

Some key trends likely making ESG a 'megatrend'

There are numerous potential drivers explaining increasing fund flows into ESG. Below we outline some of the likely explanations:

- **Higher returns:** there is a growing body of evidence to suggest ESG styles of investing provide modestly higher returns for lower risk, making ESG funds more attractive to investors. We look at this in more detail later in this section;
- **Current affairs and climate change:** increasing political volatility and increasingly extreme climate events bolstered by publicity surrounding the Greta Thunberg and Extinction Rebellion campaigns may have played a role in bringing the option of socially conscious investment to the forefront of investors' minds; and

- **Increasing investment from younger investors:** Younger generations tend to be more in favour of responsible investing, and this 'socially conscious' base will continue to grow, with Hargreaves Lansdown noting that c£5tn is expected to pass from 'Baby Boomers' to their children over the next 30 years in the UK alone. It also highlights that **90% of Millennials want to invest on an ESG-compliant basis, and that 84% already do**.

Figure 39 illustrates US sustainable fund flows and exemplifies how fund flows into ESG-style portfolios has picked up over the past decade. The acceleration since the start of 2019 intensified with the onset of the pandemic and has continued to set new records right into 2021.

The fund management industry is adapting to the 'megatrend'

The financial sector is expected to be a critical enabler in the transition to achieving a sustainable economy. Investors hold significant influence as allocators of capital and can leverage this position to effect sustainable change within investee companies.

A recent survey by the New City Initiative captured this dynamic very well. It showed that **five years ago, slightly less than half of fund managers incorporated ESG into the investment process whereas today, c90% do**. What is also interesting to see is that more than half use ESG factors for risk management purposes (presumably looking for poor governance, poor working practices and/or potential environmental problems).

With Larry Fink / Blackrock now providing their financial muscle to ESG ideas, it is no surprise that ESG in investing is now considered basically mainstream. However, two early pioneers of incorporating ESG into their investment process stand out:

- **Parnassus Investments** – the Parnassus Core Equity fund is the largest ESG-focused fund in the US, with US$31bn of assets, as well as being one of the oldest, stretching back to 1992.
- **Impax Asset Management** – an ESG pioneer founded in the UK in 1998. It has a range of ESG-focused funds with AUM (inc. advice) of US$50bn.

Meanwhile, existing conventional fund managers are increasingly bringing themselves in line with ESG standards. One reason for this is the largely involuntary and ever-increasing regulatory requirements to invest more 'responsibly', encouraging the entire fund management sector to become more ESG compliant.

Since October 2019, UK pension funds have been responsible for integrating ESG issues into their investment approach. ESG considerations are now part of their fiduciary duty and they are required to set out how they account for material ESG issues in their Statement of Investment Principals (SIPs).

It is also worth highlighting that as the profile of the ESG sector has grown, fund managers have moved to release more specialist ESG-focused funds that are run alongside their existing funds, in order to appeal to the more ESG-conscious investor base.

This makes the recent failure of the Liontrust ESG Trust IPO all the more curious. There are doubtless many reasons why this Investment Trust failed to launch including the niche interest of Investment Trusts generally and possible lack of differentiation with Liontrust's similar open-ended funds (or indeed with the hundreds of other ESG funds). **However, one of the more intriguing reasons we have heard is that ALL fund launches are now expected to have ESG firmly embedded into their investment approach, so being simply focused on ESG as a fund is not enough to get investors interested, as this is now the expected norm**.

Re-cap on differing approaches to ESG

Different ESG funds often have different approaches to ESG integration and may focus on one particular aspect/theme of ESG.

One way of classifying all these different approaches is using Fund EcoMarket's 'SRI Styles' directory, which assigns funds ethically or thematically similar groupings. These styles are outlined below:

Ethical strategies

- **Ethically balanced:** application of a number of both positive and negative ethical screening policies, actively seeking to incorporate companies exhibiting positive ESG characteristics and screening out those that do not.
- **Negative ethical:** use of negative ethical screens, ensuring avoidance of companies involved in the likes of armaments, gambling, tobacco and alcohol.
- **Limited exclusions:** a more 'light touch' (and less comprehensive) sub-style of negative ethical, with funds excluding only a small fraction of their investable universe, such as excluding only tobacco producers.
- **Faith based:** screen based on specific religious principles.

Thematic strategies

- **Sustainability themed:** a focus on sustainability-related opportunities and issues, aiming to take advantage of long-term societal and environmental trends, investing in longer-term focused, sustainably managed businesses.
- **Environmental themed:** integration of environmental issues into fund management with a focus on long-term environmental and resource-related trends. Companies are often considered based on environmental credentials and how they could benefit from regulatory changes and improving environmental standards.
- **Social themed:** focused on companies that bring societal benefits. Funds select companies based on criteria such as employee relations, human rights, equal opportunities and benefits to communities.

Strategies that apply to either an individual fund or across all fund manager assets:

- **ESG plus:** indicates managers have strong ESG strategies integrated into the investment research process, alongside additional ethical/stewardship related activity.
- **Responsible ownership:** strategy in which fund managers work alongside the companies they invest in to encourage best practice on different aspects of ESG.

Often more active funds will have their own, more specific system for qualification into their portfolios. Alignment with the UN's Sustainable Development Goals (SDG) is a common requirement (e.g. **Fundsmith Sustainable Equity Fund**, **Hermes SDG Equity Fund**), whilst some monitor quantitative metrics such as waste or CO_2 production relative to turnover, and the proportion of female directors/independents on companies' boards.

As a result of these sector-wide criteria, there are a handful of companies with relatively low carbon footprints and good governance that appear in almost every large cap ESG fund. Examples of companies commonly held in ESG funds would be **Microsoft**, **Visa**, **Apple** and **Unilever**.

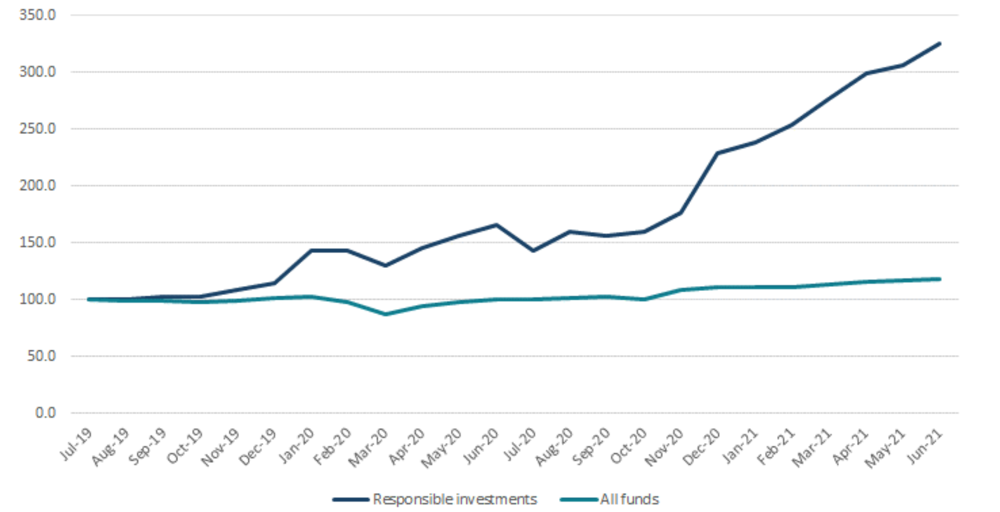
Some environmentally themed funds are even more ESG 'specialist', with many targeting investment in just one subset of the environmental ESG universe, such as solar or wind projects.

Update on fund flows into ESG

ESG boom in UK clearly catalysed by the pandemic

The rapid rise in ESG-related AUM in the UK that we reported on last year has continued to run and run (Figure 40). Pre-pandemic, monthly retail inflows into responsible investments were in the £300-500m range. Immediately after the first lockdown hit, this rose to c£1bn per month and this was sustained right until the end of the year. Moving into 2021, inflows have actually accelerated and have averaged c £1.2bn per month (Figure 41). **Overall, while AUM in UK equities has increased +13% since July 2019, AUM in UK responsible investments has increased by +225%**.

Figure 40: Growth in AUM for UK funds, indexed to 100 in May-19



Source: IA

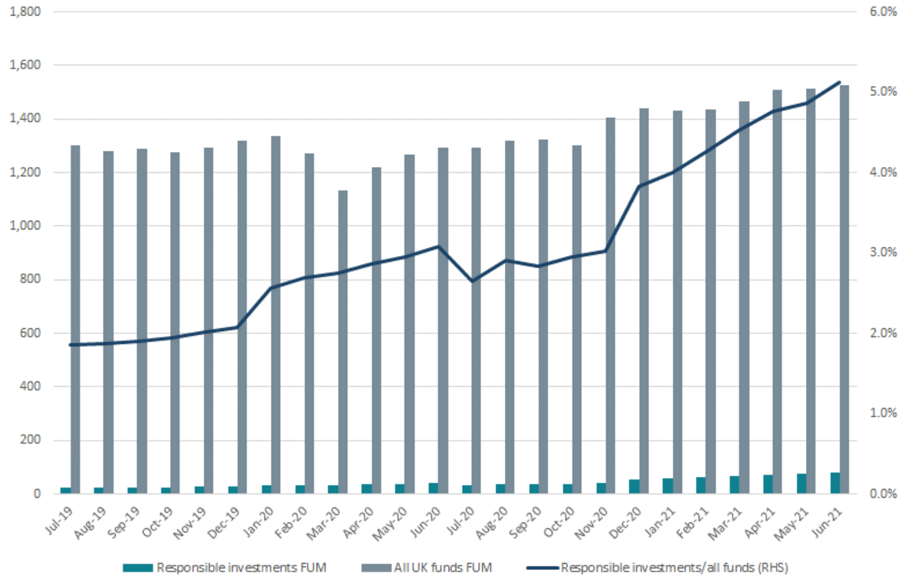
Figure 41: Net retail sales of UK funds (£m)

		Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Equity funds	£m	-111	439	4,139	2,546	779	230	1,107	2,902	1,034	2,218
Fixed income funds	£m	1,147	701	1,188	1,328	2,236	1,406	1,033	1,269	973	986
Mixed asset funds	£m	423	1,153	2,357	1,784	719	838	1,908	1,497	1,236	935
Funds of funds	£m	185	330	766	825	1,006	634	1,235	1,220	820	873
Tracker funds	£m	1,224	1,695	2,962	926	1,996	993	626	2,862	1,519	2,211
Responsible investments	**£m**	**902**	**1,059**	**1,078**	**1,078**	**1,218**	**-214**	**1,606**	**1,603**	**1,304**	**1,215**
ISAs	£m	-305	-169	5	89	-4	175	757	1,547	426	71
All funds	£m	1,596	2,520	8,337	6,171	3,238	2,286	4,399	6,252	3,515	4,221

Source: IA

Looking at UK equity market in totality (Figure 41), AUM in all strategies amounted to c£1.3tr pre-pandemic and currently stands at c£1.5tr following market recovery and resumed inflows. **While responsible investment only amounts to £78bn of total AUM, this represents a more than doubling of the proportion of the whole since pre-pandemic (2% to 5%)**. Given the broad adoption of ESG as part of the investment process (see Fund Manager survey and earlier in this section), this proportion seems only set to rise.

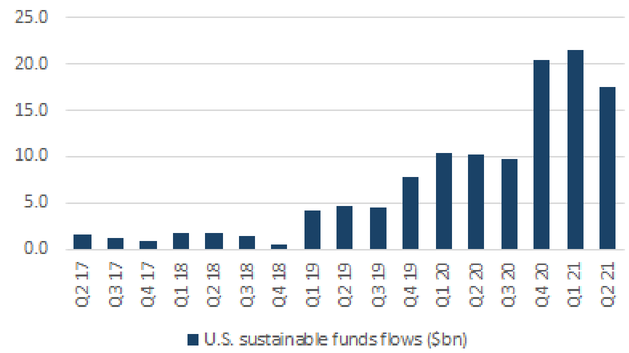
Figure 42: Responsible investment AUM rising rapidly off a low base (£bn)



Source: IA

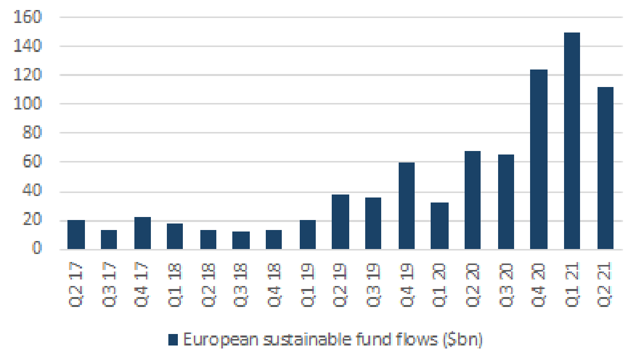
Global perspective shows similar trends to the UK

Figure 43: US ESG fund inflows hit record highs of US$20bn+ in Q4 2020 and Q1 2021, c4x pre-pandemic levels (US$bn)



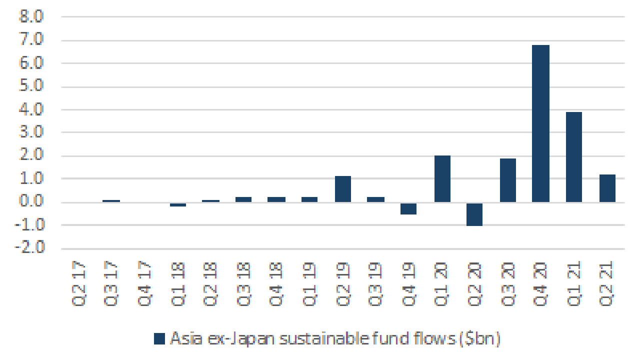
Source: Morningstar

Figure 44: EU ESG flows have a similar dynamic to the US, also peaking in Q1 2021 at c4x pre-pandemic (US$bn). EU is global heavyweight in ESG with fund flows 6-7x larger than the US



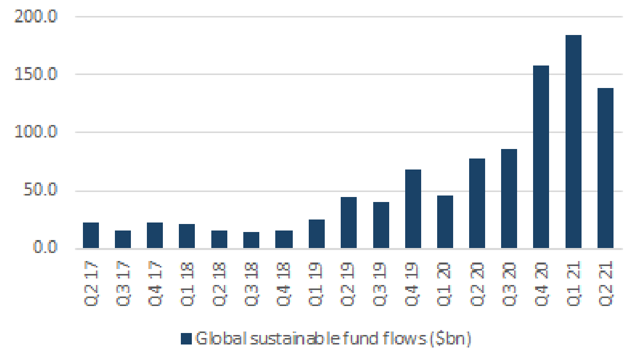
Source: Morningstar

Figure 45: Asia saw huge acceleration in H2 2020, peaking at nearly US$7bn in Q4 2020, but interest seems to be waning (US$bn)



Source: Morningstar

Figure 46: Globally, sustainable fund flows rocketed during 2020 and remain at c3x pre-pandemic levels (US$bn). EU accounts for 80% of ESG fund flows



Source: Morningstar

Update on how ESG is performing

ESG funds are no longer appealing only to those looking to invest 'responsibly'. **Evidence continues to mount that ESG investment styles could deliver higher returns with lower risk**. This outperformance was particularly notable from the beginning of 2020, through the COVID-19 market crash and subsequent rebound.

Morningstar research shows that European-based ESG funds have outperformed conventional funds across 1, 3, 5 and 10-year timeframes. Separately, the Financial Times has found that almost 6 out of 10 sustainable funds delivered higher returns than conventional funds over the past 10 years.

Consistent outperformance post-pandemic is demonstrated by the following ESG-focused indices:

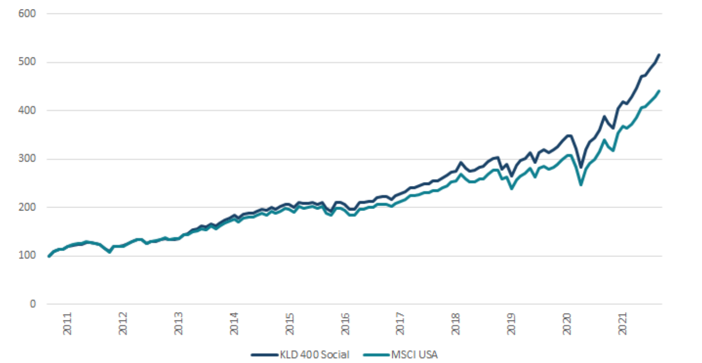
MSCI KLD 400 Social Index: consistent, modest outperformance

- **MSCI KLD 400 Social Index** has existed in various incarnations since May 1990, and is widely regarded as the oldest SRI index in the World. The index consists of 400 companies selected from the MSCI USA IMI Index, providing exposure to companies with high MSCI ESG ratings and excluding companies whose products might have negative ESG impacts (alcohol, tobacco, gambling, firearms etc.).
- The KLD 400 Social has consistently outperformed its 'parent' MSCI USA IMI index. **Between Aug 2010 and Aug 2021 it achieved a return of +415%, outperforming the MSCI USA by 75 percentage points** (Figure 47).
- Since August 2010, the KLD 400 has produced annualised returns of 16.1%, whereas the MSCI USA IMI has produced annualised returns of 14.4%.

MSCI ACWI Sustainable Impact Index: strong outperformance post-pandemic

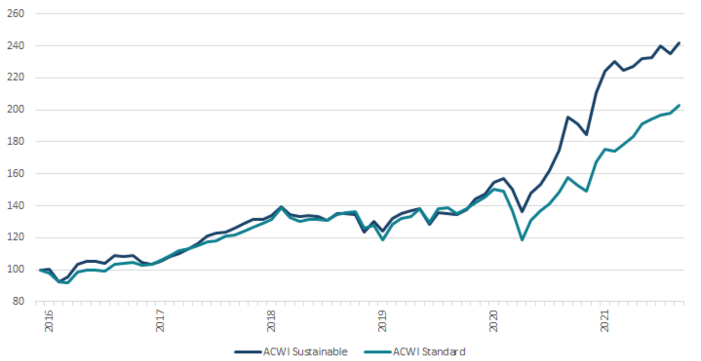
- **MSCI ACWI Sustainable Impact Index** identifies companies that derive 50%+ of revenues from products/services that address environmental or social challenges (in the context of the UN's 17 SDGs) and excludes companies that fail to meet minimum ESG standards. The index then weights potential holdings by the percentage of revenue derived from products/services that address themes related to the SDGs.
- MSCI estimates that the ACWI Sustainable Impact Index has a 71% greater exposure to revenue derived from sustainable impact solutions than its parent MSCI ACWI Index (MSCI's flagship global equity index) and has **generated returns of +142% since inception in Nov 2015, equating to 40 percentage points of outperformance** (Figure 48). It is notable that all of this outperformance has been generated since the start of the pandemic.

Figure 47: Performance of KLD 400



Source: MSCI

Figure 48: Performance of ACWI Sustainable Impact



Source: MSCI

Sustainalytics ESG risk rating indices: outcome less clear-cut

In 2020, we formed a set of indices based on Sustainalytics' Company ESG Risk Ratings. Sustainalytics has assigned over 4,000 companies across 50+ exchanges an ESG rating from 0-100, providing a uniform measure of "the level of unmanaged ESG risk for all ESG issues" for each company. The lower a company's risk rating, the lower the overall risk of experiencing material financial impact due to ESG factors.

ESG risk ratings are split into five categories: Negligible (ratings from 0-10), Low (10-20), Medium (20-30), High (30-40) and Severe (40+). We have split the 4,000+ companies by category and formed indices going back to 2010. Sample sizes and average risk ratings for each category's index are illustrated in Figure 49.

Figure 49: Characteristics of Sustainalytics ESG indices

Index	Negligible	Low	Medium	High	Severe
Sample size	40	1,112	1,731	866	337
Average risk rating	8.7	16.3	24.9	34.0	46.7

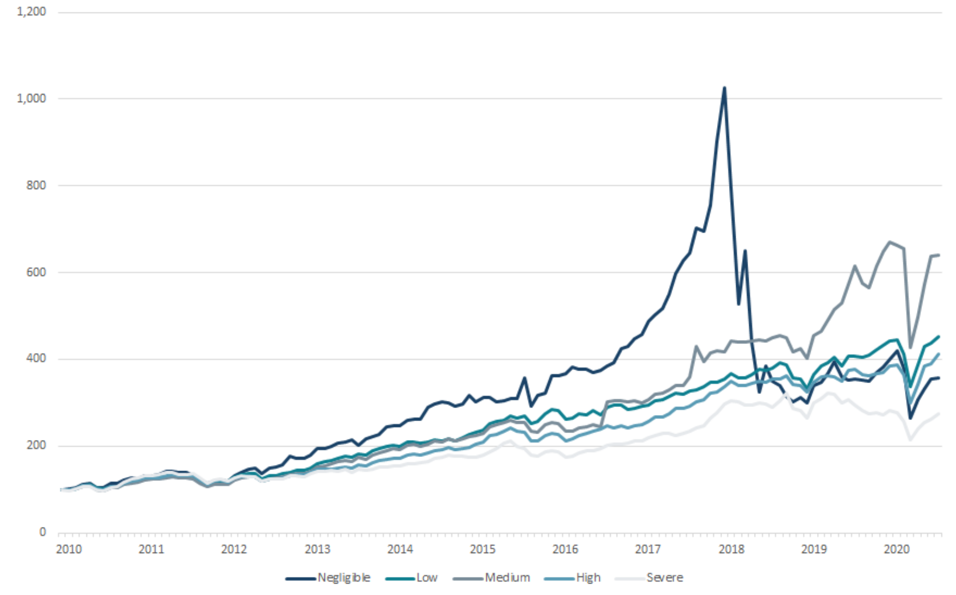
Source: Sustainalytics

We highlight that the 'Negligible' index had a far lower sample size and was driven by a handful of large outliers. Consequently, we do not feel this particular index can be viewed as reliable but have left it in the graph in Figure 50.

Over the 10-year period, companies with Medium ESG risk ratings have outperformed significantly (Figure 50), followed by the 'Low' index, then 'High' and 'Severe'. We note that 'Low' and 'Medium' performed almost in line with each other until c2017, at which point 'Medium' began to surge ahead.

Conclusions from these indices are perhaps not as clear cut as ESG advocates might like. 'Medium' risk has performed very materially better than other risk categories, while 'Negligible', 'Low' and 'High' risk categories delivered similar returns overall. At least the 'Severe' risk category delivered the worst result.

Figure 50: Sustainalytics ESG indices over ten years – not very conclusive



Source: finnCap, Sustainalytics

Why might have ESG funds seemingly performed better than their conventional counterparts?

There are various arguments as to why some ESG funds have outperformed. Most of these boil down to ESG funds using more rigorous screening techniques, often in addition to standard financial screens used by most conventional funds. We outline some of the most commonly cited individual arguments below:

- **Focus on longer-term growth/sustainability:** Most ESG funds (including Al Gore's Generation IM) tend to place more of an emphasis on sustainability than traditional funds. Sustainable in the sense that they focus on companies that are (or will become) self-sufficient and will prosper as the world, and the legal, political and financial systems that govern it, continues to change.
- **Screening out high-risk companies:** ESG integration into fundamental financial analysis also contributes to risk management, offering a new lens on potentially material factors that could affect a company's long-term potential and lowers risk of exposure to 'stranded' assets and governance-related/reputational risks from undesirable social/governance practices. Conventional financial analysis will not necessarily be able to capture such risks.
- **Stronger leadership:** In our view, stronger managers will look to encourage board independence and reduce things like waste, water usage, employee turnover (even if just to save cost), amongst other actions they take to improve performance, meaning stronger leadership could go hand in hand with ESG compliance.
- **More engagement with management:** ESG funds (such as Mirabaud Equities Global Focus) ensure they keep very close and constant contact with management of the companies they hold to remain updated on progress relating to ESG compliance, but also ensuring they remain updated on other aspects, allowing for a more complete picture of the companies they hold.
- **Higher quality/growth weighting:** By looking at investable companies based on both financial and social potential, fund managers (e.g. for AB Sustainable Global Thematic) find that their analysis is weighted more towards quality/growth companies. In our view, quality/growth are the most appropriate styles for long-term investors, with empirical evidence pointing to consistently higher returns, as we have shown with our own analysis with Slide Rule.
- **Overexposure to certain sectors:** ESG analysis tends to favour certain sectors over others since they are by nature more ESG-appropriate. For example, tech and life science companies tend to appear far more frequently in ESG portfolios than companies in the oil and gas sector due to their substantially lower carbon footprints. Since tech/life science companies have outperformed many other sectors over the past 5-10 years, it is likely this bias can be used to explain at least some of ESG funds' outperformance.
- **Overexposure to certain companies:** Similarly, strict application of ESG requirements often leads to a handful of mega caps being included in most large ESG funds. Typical examples would again be tech and life science companies with low emissions and 'good' corporate governance such as **Microsoft**, **Apple** and **Visa**. Many of these 'ESG essentials' have outperformed significantly in recent years, which could also contribute to ESG's overall outperformance.

APPENDIX 1: ESG Policies, Frameworks and Standards

- ESG stands for Environmental, Social and Governance. The term was coined by the UN in a 2005 report *Who Cares Wins*. In 2015, the UN followed up with the publication of the 17 Sustainable Development Goals (SDGs), which set an agenda up to 2030. Dovetailing with this was the 2015 Paris Agreement, where 189 countries legally signed up to climate change targets.
- Various frameworks and standards have been established to enable companies and investors to monitor progress towards, or compliance with, the SDGs and/or the Paris Agreement. In our view, some of the key ones include: The Global Reporting Initiative Standards (GRI); Sustainability Accounting Standards Board (SASB); Taskforce on Climate-related Financial Disclosures (TCFD); The Principles for Responsible Investment (PRI); The EU Taxonomy; and The Non-Financial Reporting Directive (NFRD).
- In this appendix, we review the SDGs and the Paris Agreement and give an overview of some of the most important standards and frameworks.

What is ESG?

ESG is an acronym which stands for Environmental, Social and Governance. The overarching assertion is that economies based on capitalism tend to only consider one stakeholder: the shareholder. Corporations are run to maximise profit with little consideration to anything else. The concept of **ESG investing puts forward the idea that there is far more than one stakeholder in business** and that significant weight should be given to the environment, employees, the supply chain and the wider community in which the business operates. **For a business to be 'sustainable' it will ultimately need to correctly balance the needs of all these stakeholders**. These ideas are gathering significant momentum, driven by the UN, governments and investors themselves. In our view, it is only a matter of time before these themes grow in importance for smaller companies.

First introduced in the report titled *Who Cares Wins* in 2005 (authored by the UN Global Compact and the International Finance Corporation), ESG (Figure 51) is one of several approaches to describe sustainable investment practices, most frequently associated with sustainable, responsible and impact (SRI) investing.

Figure 51: ESG broken down

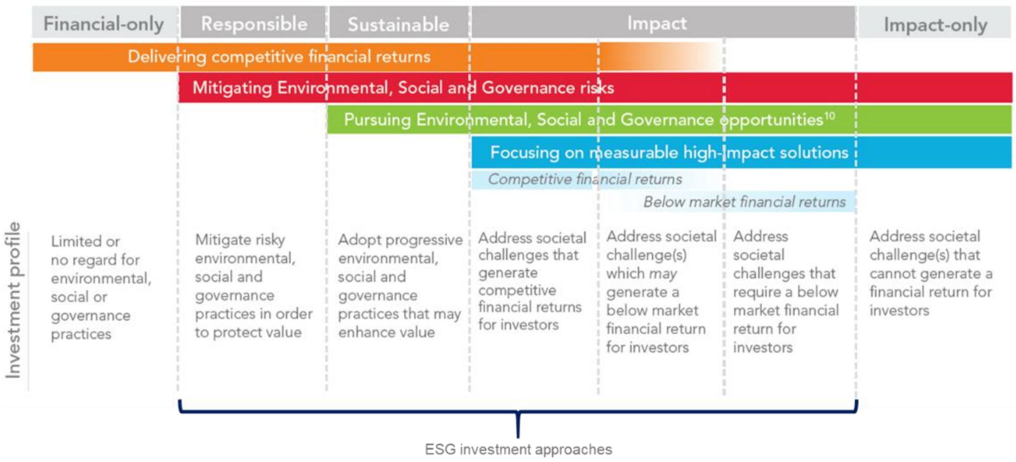
Source: Growing a culture of social impact investing in the UK, 2017

However, while SRI focuses on exclusionary practices, enabling investors to avoid ethically onerous 'sin stocks' (e.g. tobacco companies, weapon manufacturers etc.) and impact investing centres on companies that specifically operate to deliver a social benefit regardless of guaranteed success (e.g. non-profit organisations), ESG is not limited to the impact of environmental and social issues. Instead, it adopts the view that these issues can have significant economic implications, and therefore are relevant to the traditional financial risks and returns of a business. As such, **ESG considerations are regarded as a crucial non-financial measure for long-term financial performance**.

Spectrum of capital returns: Financial to Impact

ESG is not a cookie-cutter concept, but varies considerably depending on the objectives of those implementing the practices. The spectrum of capital returns (Figure 52) displays the continuum of investment approaches, specifically the balance between financial and social returns. At the far left lies the 'finance-first' approach, within which investor focus is centred solely on competitive financial returns. At the opposite end, the 'philanthropic' impact-only approach is motivated by delivering impact solutions, with financial returns often traded off for social return. Between these extremes, ESG provides a middle ground.

Figure 52: The spectrum of capital returns



Source: Bridges Impact + and the Impact Management Project

By adopting elements of both strategies, **ESG approaches enable investors to allocate capital to assets addressing ESG challenges, whilst simultaneously delivering a financial return**. The varying degrees to which ESG practices can be integrated enable organisations to apply these principles according to identified objectives and resources.

Standardising and measuring ESG

One of the biggest challenges in the adoption of ESG integration has been the lack of standardised guidelines. Organisations require a guide to identify ESG opportunities and navigate the integration process, whilst institutional investors require investment grade ESG data to reliably assess performance to inform capital allocation.

The 2005 report *Who Cares Wins* set out to develop guidelines and recommendations on how to integrate environmental, social and corporate governance issues in asset management and financial services. Since then, a growing inventory of initiatives are seeking to codify and standardise ESG practices. Below, we summarise some of the most pertinent standards and guidelines addressing sustainability goals, both within the financial sphere and externally in policy development.

It all starts here: the 17 Sustainable Development Goals

In 2015, the United Nations (UN) adopted a resolution titled "Transforming Our World: the 2030 Agenda for Sustainable Development". The 2030 Agenda set 17 global Sustainable Development Goals (SDGs) and 169 targets to address challenges related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice. The SDGs represent a collaborative and collective universal framework that can be used as a blueprint to implement systemic change and achieve a more sustainable future for all in this decade.

The SDGs (Figure 53) replace the Millennium Development Goals (MDGs), eight development objectives designed to address socio economic, health and environmental challenges faced worldwide between 2000 and 2015. Following from its predecessor, the SDGs build on the MDGs, addressing what they did not complete and extending the objectives further to include issues such as natural resource management, sustainable consumption and production, and good governance.

Figure 53: The Sustainable Development Goals (2015-2030)

Source: United Nations

The 17 goals are closely connected with each other to reflect that success in one goal cannot be achieved without addressing another: for example, SDG 3 (to ensure healthy lives and promote well-being for all at all ages) cannot be successfully accomplished without addressing SDG 2 (to end hunger, achieve food security and improved nutrition and promote sustainable agriculture), which in turn must also address SDGs 6 and 12, and so on. As such, **each goal influences further action within another area**, creating a reinforcing effect and reflecting the interrelated problems and solutions for poverty, economic disparities, climate change and environmental protection.

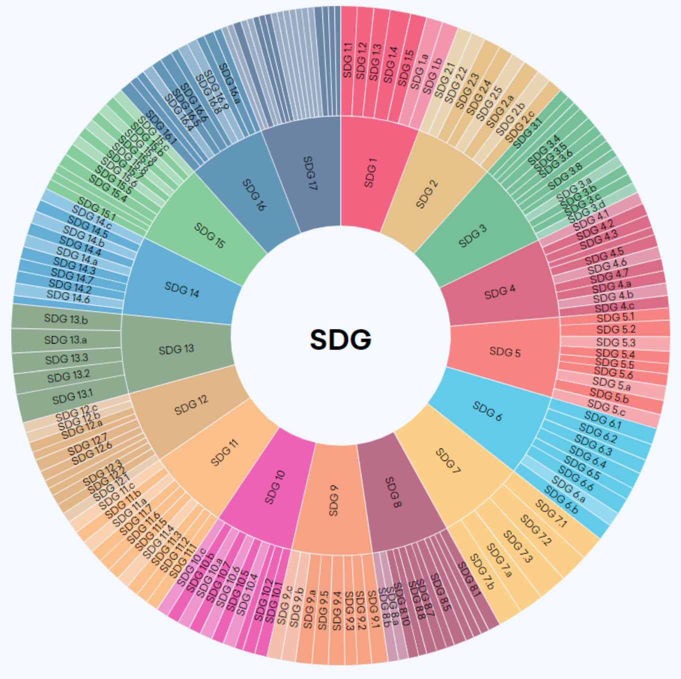
Across each headline goal are a subset of 169 associated aspirational targets (Figure 54), each of which has between one and three indicators that provide an objective and measureable framework to assess ongoing progress towards achieving each goal. There are a total of 231 indicators adopted by the General Assembly, which are further supplemented by national and regional indicators set by the independent Member States to adapt to each country's specific challenges.

The SDG Compass

Given the extensive scope and volume of the SDGs, the SDG Compass was developed as a guide to help organisations align their strategies with the goals. Jointly developed by the Global Reporting Initiative (GRI), the UN Global Compact and the World Business Council for Sustainable Development, the compass is a five-step guide for companies to maximise their contribution to the SDGs. It enables companies to define a roadmap for integrating the SDGs into core business activities, through (1) understanding the goals, (2) identifying corporate priorities, (3) setting internal goals, (4) embedding sustainable development targets and (5) measuring and reporting ongoing contributions.

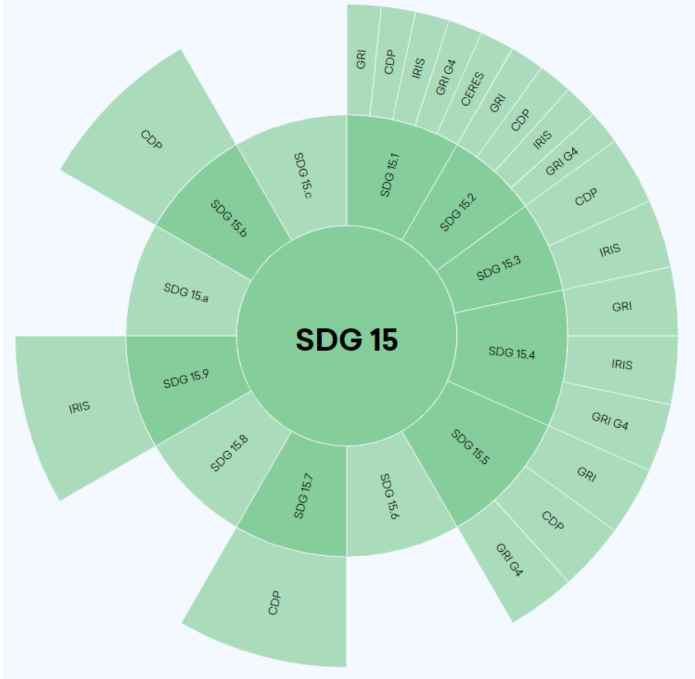
Additionally, the SDG Compass sets out how the SDGs map onto other standards, including the Global Reporting Initiative Standards (described in detail below). As Figure 55 illustrates, the SDGs align with a number of additional reporting frameworks, including the GRI Standards, the Carbon Disclosure Project (CDP) and Impact Reporting and Investment Standards (IRIS).

Figure 54: The 17 SDGs and sub-directives



Source: G17Eco / WWG

Figure 55: How SDG15 maps onto other standards



Source: G17Eco / WWG

The world signs up to the 17 SDGs: The Paris Agreement

Dovetailing with the launch of the SDGs in 2015, the Paris Agreement became the first-ever universal legally binding global climate change agreement. Adopted at the Paris climate conference (COP21) in December 2015, and formally ratified in 2016, the Paris Agreement aims to cut emissions and achieve climate-neutrality before the end of the century.

We summarise some of the key objectives below:

- **Limit global warming to 'well below' 2°C**: At its core, the agreement aims to restrict global warming this century to 2°C, while pursuing efforts to limit global average temperature to 1.5°C above pre-industrial levels.
- **Transparency and accountability in global stocktake**: The Paris Agreement provides a robust transparency framework for reporting, monitoring and management of the national and collective progress to climate goals.
- **Nationally Determined Contribution (NDCs)**: NDCs refer to each country's intended commitments and objectives for how it will address and achieve long-term goals against climate change. Each country's commitments reflect its development and capabilities: developed nations such as the US and EU have committed to economy-wide reduction targets (e.g. emission cuts below 2005 levels), while emerging economies commit to targets that reflect their level of development and historic contribution of climate change (e.g. greenhouse gas intensity targets).
- **Five-year reviews**: All countries are required to review its NDCs every five years under a single global transparency system so as to reassess both its individual and the collective performance to date, and scale up pledges to reduce emissions.
- **Climate finance**: The wealthier, developed countries have committed to provide 'climate finance' to help the most vulnerable developing countries address climate change and build low-carbon economies. Currently, developed countries have agreed to commit $100bn annually through to 2020, afterwards using $100bn as a base figure for further support.

To date, the Paris Agreement has been formally endorsed by 189 countries of the 197 Parties to the Convention. Countries yet to ratify the agreement are: Iran, Turkey, Iraq, Angola, Eritrea, Libya, South Sudan and Yemen, together accounting for c.4% of global greenhouse gas emissions. In November 2019, Donald Trump infamously began the year-long withdrawal process of the US (the second-largest emitter of greenhouse gases after China) from the Paris Agreement, due to come into effect one day after the 2020 US presidential election. We note that any signatory who withdraws can apply for readmission to the UN and re-join within 30 days.

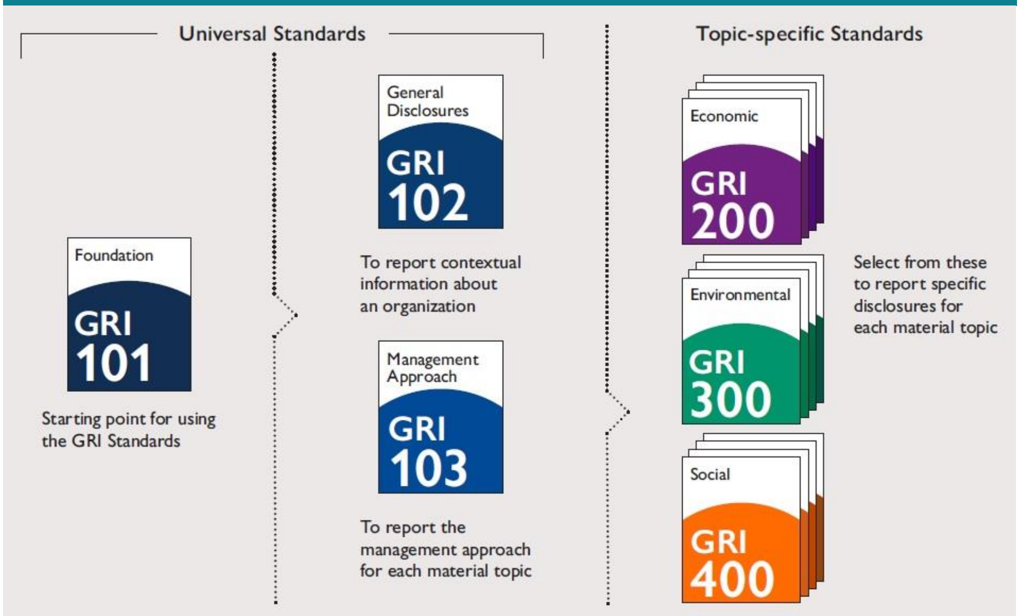
The Global Reporting Initiative Standards (GRI)

Established in 1997, the Global Reporting Initiative is a non-profit organisation that helps governments and businesses to understand and communicate their impact to sustainability issues, such as climate change, governance and social well-being. First launched in 2000, the GRI Standards were developed as the first global standards for sustainability reporting, providing a framework that fosters accountability in sustainable practices, and helps identify and manage key risks.

The standards have been continuously developed over 20 years to represent global best practice for reporting on economic, environmental and social issues. Developed with multi-stakeholder contributions, the standards acknowledge the extensive impact of sustainability issues and the collaborative effort required to address them. Today, **the GRI Standards are the most widely adopted global standards for sustainability reporting**, with 90%+ of the world's 250 largest companies reporting in their accordance.

The GRI Standards adopt a modular structure, which is divided into four sections. The three **universal standards** are applicable to all organisations conducting a sustainability report. These are designed to guide those using the standards, and provide a framework for reporting relevant contextual information about the business and how its material topics are managed. The following **topic-specific standards** are subdivided into economic, environmental and social specific disclosures, selected by the organisation according to the topics reported (Figure 56).

Figure 56: The GRI Standards



Source: GRI

Sustainability Accounting Standards Board (SASB)

The Sustainability Accounting Standards Board (SASB) is an independent non-profit organisation that aims to develop sustainability accounting standards to help public companies disclose material information to investors. Launched in November 2018, the **SASB standards were developed alongside an investor and industry expert advisory group to determine which ESG factors were most financially material**.

The inventory of 77 industry-specific standards has been designed to enable businesses worldwide to identify, manage and communicate financially-material sustainability information to their investors. As such, the SASB provides an investor-grade reporting standard across a range of communication channels (e.g. sustainability reports, annual reports and corporate websites), enabling both companies and investors to make more informed decisions on the sustainability factors most likely to have a financially material impact. As of December 2019, 120 companies use the standards for ESG reporting.

SASB's Materiality Map provides companies and investors with a basic reference to understand SASB standards. Sustainability topics are organised under five broad categories – Environment, Social Capital, Human Capital, Business Model & Innovation, and Leadership & Governance – containing 26 relevant sustainability issues (Figure 57).

Figure 57: SASB sustainability topics and issues

Source: SASB

It was announced in July 2020 that the SASB and the GRI are collaborating to provide more clarity on how both standards can be used concurrently for sustainability reporting.

Taskforce on Climate-related Financial Disclosures (TCFD)

Please see section in main body of the report.

The Principles for Responsible Investment (PRI)

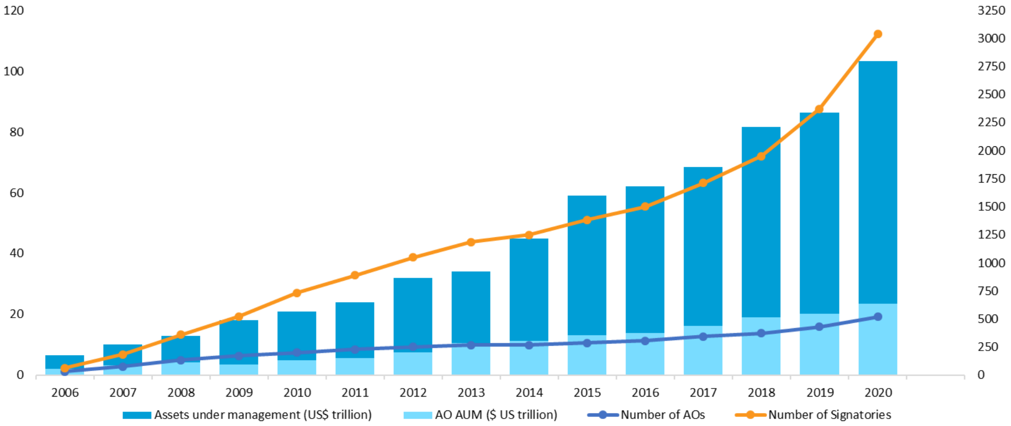
The Principles for Responsible Investment (PRI) is an international network of financial institutions, supported by the UN, which aims to help investors worldwide to understand the investment implications of ESG factors. In 2006, it launched six Principles, following a collaborative development process comprising some of the world's largest institutional investors and headed by Kofi Annan, the then UN Secretary General.

The Principles are based on the assumption that ESG issues (such as climate change and human rights) can have a significant impact on the financial performance of an investment portfolio, and therefore should be considered alongside traditional financial measures. The Principles are an aspirational and voluntary set of investment principles, which aim to develop a more sustainable global financial system. The Principles are as follows:

1. **We will incorporate ESG issues** into investment analysis and decision-making processes.
2. **We will be active owners** and incorporate ESG issues into our ownership policies and practices.
3. **We will seek appropriate disclosure** on ESG issues by the entities in which we invest.
4. **We will promote acceptance and implementation** of the principles within the investment industry.
5. **We will work together** to enhance our effectiveness in implementing the principles.
6. **We will each report on our activities and progress** towards implementing the principles.

All signatories are required to report on their responsible investment activities annually to communicate the extent to which they implement the Principles.

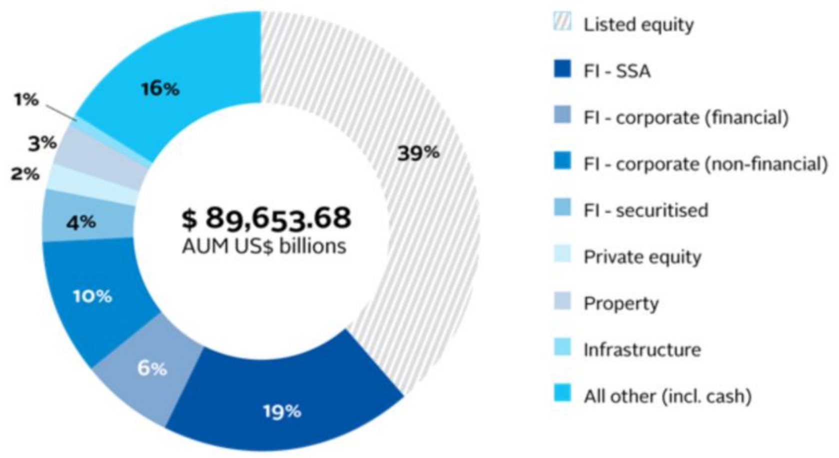
Figure 58: Growth of AUM and signatories of the PRI (2006-2020)



Source: PRI (AO = Asset Owners)

Since its inception in 2006, the number of signatories has grown from 100 to over 3,000 financial institutions (Figure 58). Similarly, **AUM has risen from US$6tn to over US$100tn in 2020, the largest component of which is held in listed equities** (Figure 59).

Figure 59: The breakdown of AUM by asset class (2018)



Source: PRI

The EU Taxonomy

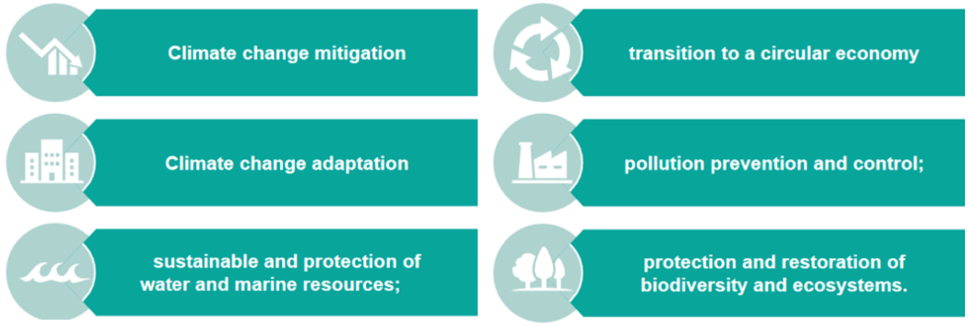
In March 2018, the European Commission put forward an action plan for financing sustainable growth, part of which was to establish a framework for sustainable economic activities. The resultant EU Taxonomy is a classification system of sustainable activities, aimed to provide investors and companies with a guide for financing sustainable growth in line with the EU's commitment to reach net-zero carbon emissions by 2050.

The EU Taxonomy recognises the significant role to be played by the financial sector in achieving sustainability goals, and sets forth a common language for sustainable finance and investment activities. In defining what sustainability is and identifying where environmentally sustainable investments can make the biggest impact, the EU Taxonomy arms investors and other financial market participants with a blueprint to reform practices across the investment chain and shift to an economy consistent with the EU's environmental objectives.

Technical screening criteria establish performance thresholds for economic activities to help investors identify opportunities and manage financial risks associated with environmental and social issues. The performance thresholds endorse activities that:

- Make a substantive contribution to one of the six environmental objectives (Figure 60);
- Do no significant harm to the other five objectives; and
- Meet minimum safeguards (e.g. the UN Guiding Principles on Business and Human Rights).

Figure 60: The six environmental objectives of the EU Taxonomy



Source: EU Technical Expert Group on Sustainable Finance

Furthermore, investors are encouraged to report and assess progress via the Taxonomy disclosure obligations, which better informs the market of the environmental contributions made by underlying economic activity.

At the end of 2019, the new EU legislation (the Disclosure Regulation) requiring disclosures by asset managers and investment funds relating to sustainable investments and sustainability was put in place. **This comes into effect at the end of March 2021**.

Application to the UK

Exactly how the EU Taxonomy will apply to UK-based financial institutions is yet to be determined in the ongoing aftermath of Brexit. The UK Government has delayed its decision for adopting the taxonomy until after the Brexit transitionary period, due to the lack of technical details on how the legislation will apply.

We note the UK established its own Green Finance Strategy, published in 2019, which highlights the importance of the City in achieving a green economy, reiterating the UK's commitment to driving sustainability within the finance sector.

The Non-Financial Reporting Directive (NFRD)

In December 2019, the European Commission released the European Green Deal, a set of policy initiatives outlining a roadmap for the journey to a climate neutral economy by 2050. Central to the success of this is the flow of public and private capital into sustainable activities. As part of the deal, the European Commission committed to reviewing the Non-Financial Reporting Directive (NFRD), to improve disclosure of climate and environmental data from corporations.

Introduced in 2018, **the NFRD requires large companies** (>500 employees) of public interest (listed, banks, insurance companies) **to disclose non-financial information pertaining to the way they manage social and environmental challenges** within its annual report. The directive offers a set of non-binding guidelines that aim to help investors and other key stakeholders to evaluate the non-financial performance of a company, whilst also encouraging these companies to develop a responsible approach to business.

Due to close in Q1 2021, the Commission's review of the NFRD is expected to improve the disclosure requirements to meet the needs of those using the data, aided by a public consultation process to accumulate the views of key stakeholders. Notably, the European Securities and Markets Authority (ESMA) has recommended broadening the scope of the directive to include small- and mid-cap listed companies, although it caveats that SMEs should be subject to lighter disclosure requirements to reduce the administrative burden.

B Corporations

Certified B Corporations (B Corps) are **businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose**. Granted by B Labs, a global non-profit organisation, the B Corp Certification is the only certification that measures a company's entire social and environmental performance. It aims to redefine success to be beyond pure financial returns, instead to focus on more inclusive and sustainable products, practices and profits.

All companies must complete the B Impact Assessment (BIA), a free, confidential platform that evaluates a company's impact on its workers, community, customers and environment. Notably, the BIA assesses performance across the entire business model, including day-to-day operations and throughout the supply chain. Questions are dependent on the size, sector and market in which a company operates, with around 200 questions in total. Companies are required to score a minimum of 80 across all impact areas.

Once certified, B Corps are required to pay an annual fee ranging from US$500 to US$50,000, depending on annual sales, and must re-certify every three years to retain B Corporation status. As of April 2020, there are over 3,300 certified B Corps across 150 industries in 71 countries. Members include Patagonia, Ben & Jerry's and Hootsuite.

The QCA Corporate Governance Code

First released in 2013, the QCA Code provides a corporate governance framework tailored for smaller quoted companies. Less prescriptive than the UK Corporate Governance Code, which applies to premium-listed companies, **the QCA offers a practical, outcome-orientated approach to corporate governance for AIM-listed companies**.

The QCA was updated in 2018 to coincide with changes in AIM that required all AIM-listed companies to adopt a recognised corporate governance code as of September 2018. The reviewed and condensed code sets out ten principles of corporate governance, with step-by-step guidance for easy adoption and implementation of these principles.

Figure 61: The 10 corporate governance principles of the QCA

Deliver growth	1	Establish a strategy and business model which promotes long-term value for shareholder
	2	Seek to understand and meet shareholder needs and expectations
	3	Take into account wider stakeholder and social responsibilities and their implications for long-term success
	4	Embed effective risk management, considering both opportunities and threats, throughout the organisation
Maintain a dynamic management framework	5	Maintain the board as a well-functioning, balanced team led by the Chair
	6	Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities
	7	Evaluate board performance based on clear and relevant objectives, seeking continuous improvement
	8	Promote a corporate culture that is based on ethical values and behaviours
	9	Maintain governance structures and processes that are fit for purpose and support good decision-making by the board
Build trust	10	Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholder

Source: Deloitte

Other standards / frameworks

In this section, we have aimed to overview the most important standards, frameworks and principles. These are the ones that we think are the most important now at a global level and at a local UK level. However, there are many more that we could have considered which include: IRIS, Behind the Brands, The Carbon Disclosure Project, WASH Pledge and Guiding Principles for Implementation, Streamlined Energy & Carbon Reporting (SECR), Climate Disclosure Standards Board (CDSB), and so on.

APPENDIX 2: How to measure ESG

- **The old adage goes that 'if you can't measure it, you can't manage it'. This is equally true for ESG. Through the SDGs and the Paris Agreement, the UN and its member countries have clear ideas in which direction governments and companies should be heading. But how can they measure and monitor progress?**
- **Stepping into this market to provide ESG data on companies are traditional ratings agencies (Standard & Poors), financial data providers (MSCI, FT Russell), dedicated ESG data providers (Sustainalytics, RepRisk) and a number of start-ups such as World Wide Generation.**
- **In this appendix we provide an overview of what these data providers offer.**

If you can't measure it, you can't manage it

ESG data for companies

For companies, the impact its operations have across environmental, social and governance considerations is rising up the agenda in the boardroom. Companies are increasingly measuring ESG data and compiling it into annual reports from where the ESG data providers scrape the data and generate ratings. **Increasingly, this is enabling companies to see how they rate amongst one another which, in turn, is starting to drive internal policy**.

For example, **Apple** has pledged to become carbon neutral across its entire business and manufacturing supply chain by 2030, so that all its devices will have "zero climate impact" at point of sale. Other major organisations committing to carbon-reduction programmes include: **Microsoft**, **Amazon**, **Google**, **Mercedes-Benz** and **Nike**.

Companies are realising that unless they can demonstrate they are 'good corporate citizens' considering all stakeholders in their business, they could struggle to attract investors. An excellent recent example of this concerns fast-fashion business **Boohoo**. It has been alleged that some suppliers have been paying employees below minimum wage and enforcing work during the pandemic lockdown. **The fear of association made several high-profile shareholders take flight**, with significant damage inflicted on the share price.

Whilst there has been a large-cap bias towards ESG investments previously, in part due to the greater availability of financial and operational resources as well as a scarcity of ESG measurement tools for small- and mid-cap companies, **it seems only a matter of time before these themes grow in importance for smaller companies**. Even at the large-cap level we have seen a dramatic shift just within the past decade, with more than 80% of S&P 500 companies reporting on ESG metrics now, compared with just 20% in 2011.

The importance of small and medium-sized enterprises (SMEs) in the shift to a sustainable economy must not be underestimated. SMEs are regarded as the backbone of the European economy, comprising 99% of all businesses in the EU and 99.9% of the business population in the UK. Furthermore, the agility of SMEs provides them the flexibility to integrate ESG practices at a quicker pace, in comparison to slower-moving large corporations.

ESG data for investors

In January 2020, there was a seismic shift. Larry Fink, the CEO of the world's largest money manager, Blackrock, in his annual letter to CEOs stated that **"Climate change has become a defining factor in companies' long-term prospects"** and the investment decisions surrounding it would lead to a "fundamental reshaping of finance". Blackrock believes that **"sustainability and climate-integrated portfolios provide better risk-adjusted returns to investors"**.

For investors, ESG provides an inclusive investment framework that considers not just financial performance and associated risks, but also the unpriced risks of an asset. These factors can have a material impact on the financial performance of a business, and therefore investor returns.

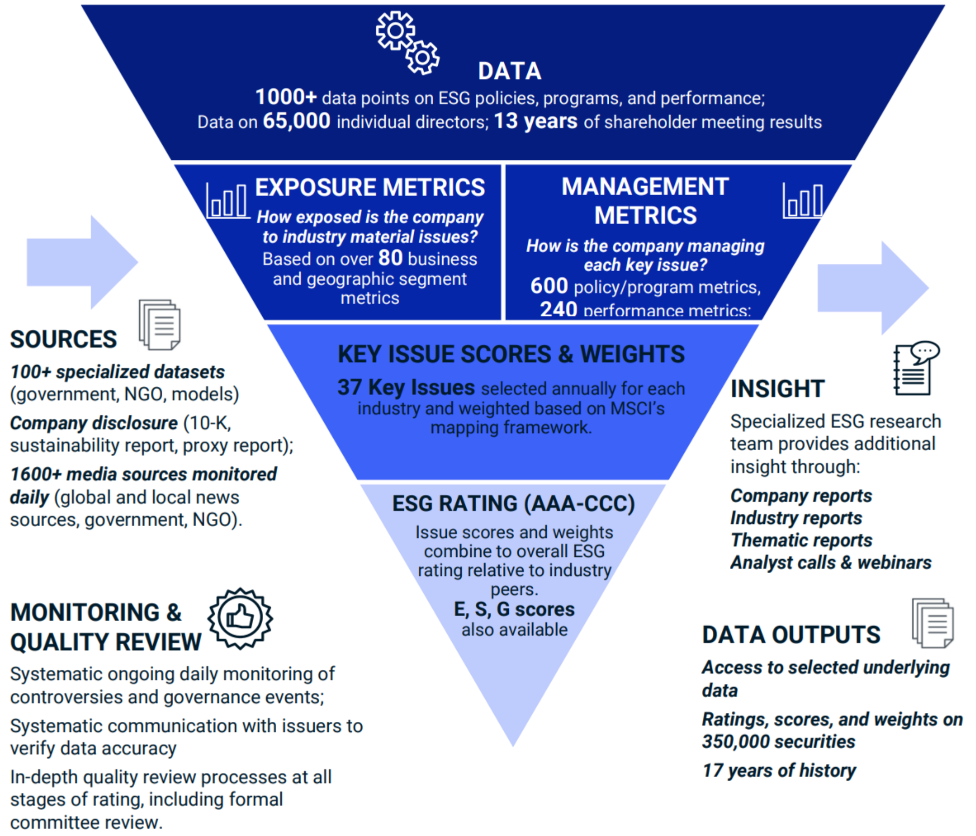
This is not just talk, it is happening now. For instance, **since October 2019, UK pension funds have been responsible for integrating ESG issues into their investment approach**. ESG considerations are now part of their fiduciary duty and they are required to set out how they account for material ESG issues in their Statement of Investment Principals (SIPs).

However, awareness is growing that **ESG investing needs a standardised reporting approach** in the battle to fight climate change and advance other social causes. The big question is **what reporting standards should be employed and who should audit** them for assurance as ESG disclosure is mostly handled by companies internally. Currently, assurance over ESG information is not a regulatory requirement.

MSCI ESG Ratings

MSCI has more than 1,000 ESG indices and provides ESG ratings for over 8,300 companies. These ratings are designed to help investors understand ESG risks and opportunities and integrate these factors into their portfolio construction and management process.

Figure 62: MSCI ESG Rating Framework and Process Overview



Source: MSCI

The MSCI ESG Ratings model (Figure 62) seeks to answer four key questions about companies:

- What are the most significant ESG risks and opportunities facing a company and its industry?
- How exposed is the company to those key risks and/or opportunities?
- How well is the company managing key risks and opportunities?
- What is the overall picture for the company and how does it compare to its global industry peers?

MSCI identifies material risks and opportunities for each industry through a quantitative model that looks at ranges and average values for each industry for externalised impacts such as carbon intensity, water intensity, and injury rates (Figure 63).

Figure 63: MSCI ESG Key Issue hierarchy

3 Pillars	10 Themes	37 ESG Key Issues	
Environment	**Climate Change**	Carbon Emissions Product Carbon Footprint	Financing Environmental Impact Climate Change Vulnerability
	Natural Resources	Water Stress Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green Building	Opp's in Renewable Energy
Social	**Human Capital**	Labor Management Health & Safety	Human Capital Development Supply Chain Labor Standards
	Product Liability	Product Safety & Quality Chemical Safety Financial Product Safety	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing	
	Social Opportunities	Access to Communications Access to Finance	Access to Health Care Opp's in Nutrition & Health
Governance	**Corporate Governance***	Board* Pay*	Ownership* Accounting*
	Corporate Behavior	Business Ethics Anti-Competitive Practices Tax Transparency	Corruption & Instability Financial System Instability

Source: MSCI

Companies are rated on an AAA-CCC scale relative to the standards and performance of their industry peers. To arrive at a rating, the weighted averages of the Key Issue Scores are aggregated and normalised by the company's industry. Each company's Final Industry-Adjusted Score corresponds to a rating between best (AAA) and worst (CCC).

FTSE Russell ESG Ratings

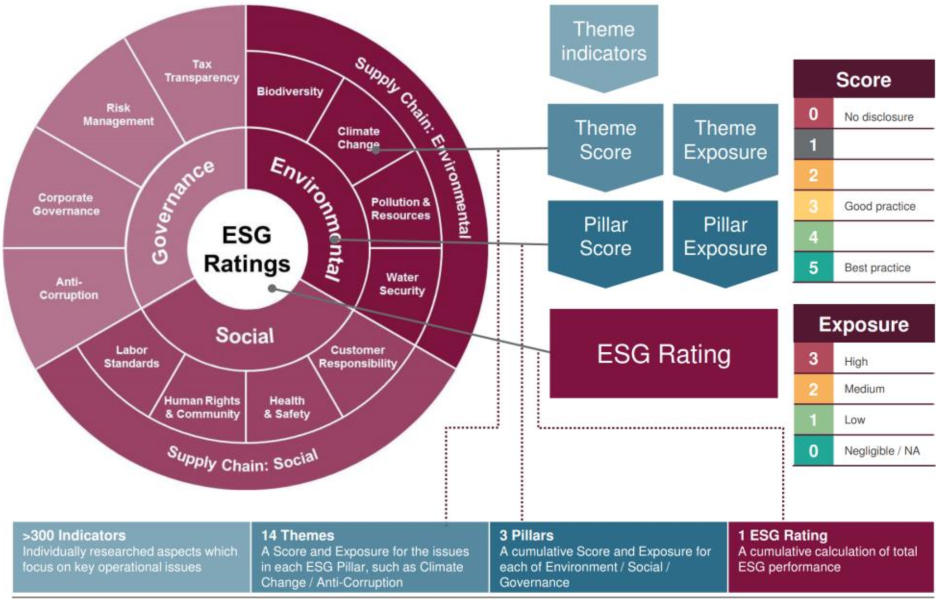
FTSE Russell's ESG ratings and data model seeks to provide an understanding of a company's exposure to, and management of, ESG issues in multiple dimensions.

The ESG ratings comprise an overall rating that breaks down into underlying Pillar and Theme exposures and scores. The Pillars and Themes are built on over 300 individual indicator assessments that are applied to each company's unique circumstances. The 14 Themes are aligned with the UN Sustainable Development Goals (SDGs).

The ESG ratings cover 7,200 securities in 47 developed and emerging markets. There is an emphasis on materiality as the ratings are exposure-weighted, with the most material ESG issues given greater prominence. The measures for assessing and rating companies are clearly defined and drive a quantitative data tool output, which investors can interrogate and customise (Figure 64).

Oversight on the ESG data model comes via an independent external committee comprising experts from the investment community, business, NGOs, unions and academia.

Figure 64: FTSE Russell ESG rating system



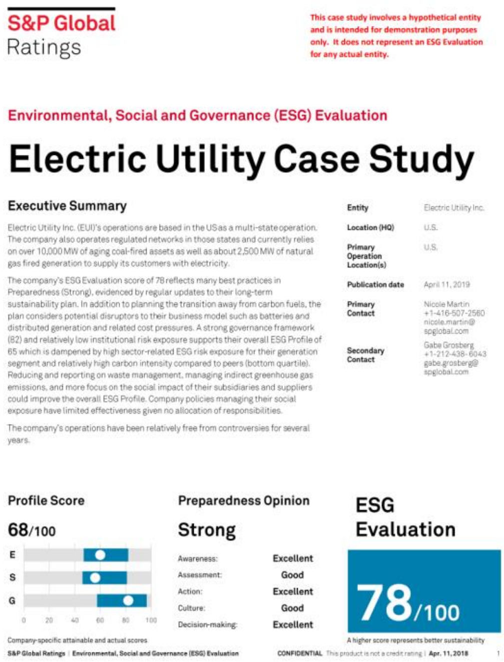
Source: FTSE Russell

S&P Global Ratings ESG Evaluation

S&P's ESG Evaluation is an individual assessment of a company's ESG strategy and ability to prepare for potential future risks and opportunities. It provides investors a forward-looking, long-term opinion of readiness for disruptive ESG risks and opportunities. It is aimed at helping investors understand the risk profile of the business, and its relative positioning against local and global peers (Figure 65).

The measure relies upon in-depth engagement with company management to assess material ESG impacts on the company, past, present and future.

Figure 65: Example S&P ESG Evaluation of a hypothetical company

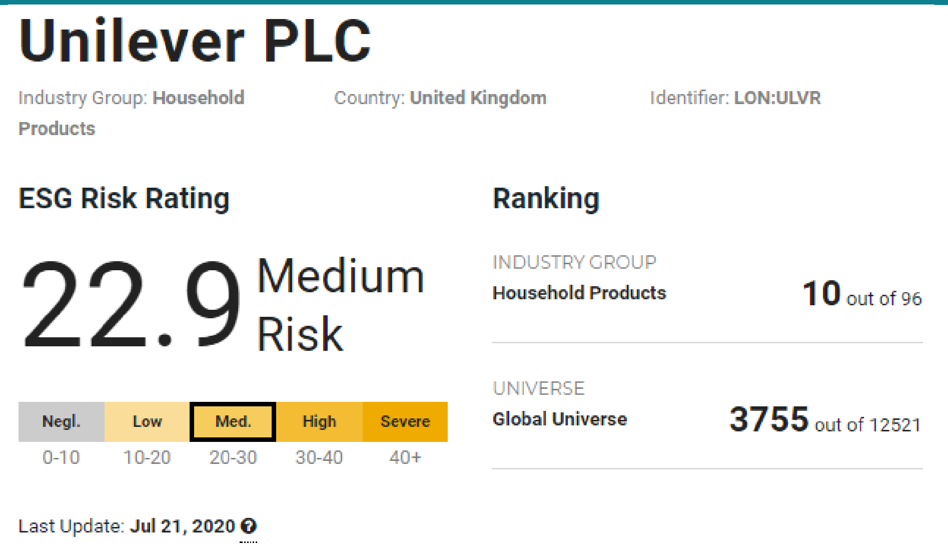


Source: S&P Global

Sustainalytics

Sustainalytics is a leading global provider of ESG and corporate governance products and services to pension funds and asset managers. It was founded in 2009, but can trace its roots in evaluating companies' sustainability performance all the way back to 1992. It aims to provide the insights required for investors and companies to make more informed decisions that lead to a more just and sustainable global economy.

Figure 66: Example of Sustainalytics ESG risk rating of Unilever



Source: Sustainalytics

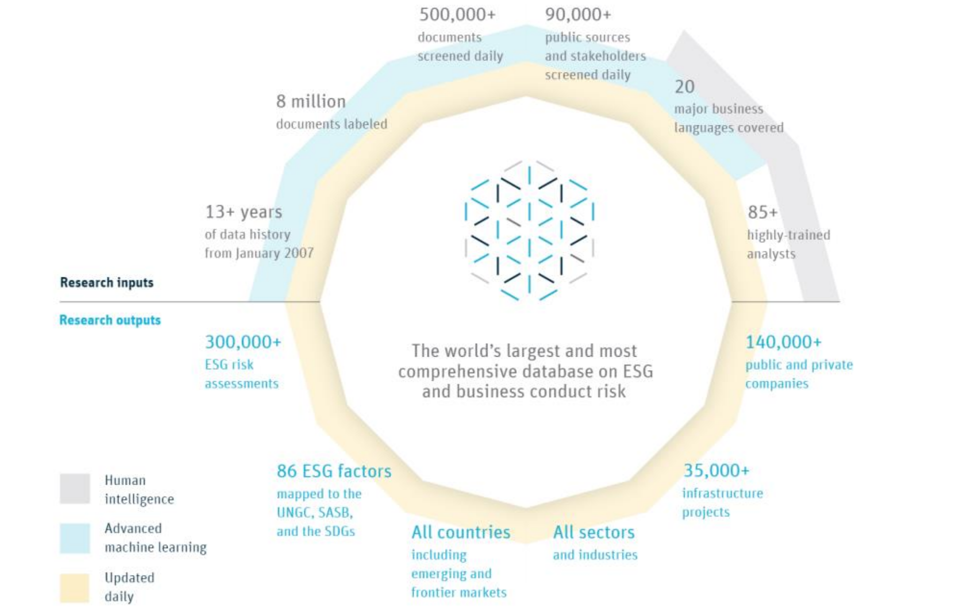
Its data is behind STOXX's Global ESG leaders index family and it has a partnership with FTSE Russell to develop a series of ESG indices. It also has strategic partnerships with Glass Lewis and Morningstar, both of which use Sustainalytics' ESG research within their products (Figure 66). It covers 12,000+ companies with its products, which include:

- Company level ESG research and ratings – the ratings are categorised across five risk levels: Negligible, Low, Medium, High and Severe, with a ratings scale from 0-100, with 100 being the most severe.
- ESG raw data – composed of more than 220 indicators and 450 separate factors across 138 sub-industries.
- Corporate Governance Research & Ratings – performance of ~4,000 companies benchmarked on a variety of metrics.
- Carbon Risk Ratings – measures a company's involvement in carbon solutions, its carbon intensity, carbon risk and fossil fuel involvement.
- Country Risk Ratings – measures the risk to a country's long-term prosperity and economic development by assessing how sustainably it is managing its wealth.
- Sustainable Products Research – identifies companies that derive revenue from sustainable products and services, including ones that contribute to the UN's Sustainable Development Goals (SDGs).

RepRisk

RepRisk is the only ESG research provider to leverage advanced machine learning alongside more traditional analysis. It includes data from over 149,000 companies and 37,000 projects across 34 sectors. It has over 13 years of data history going back to 2007. It has its roots in credit risk management and the purpose of its dataset is not to provide ESG ratings, but to systematically identify and assess material ESG risks (Figure 67).

Figure 67: RepRisk capabilities

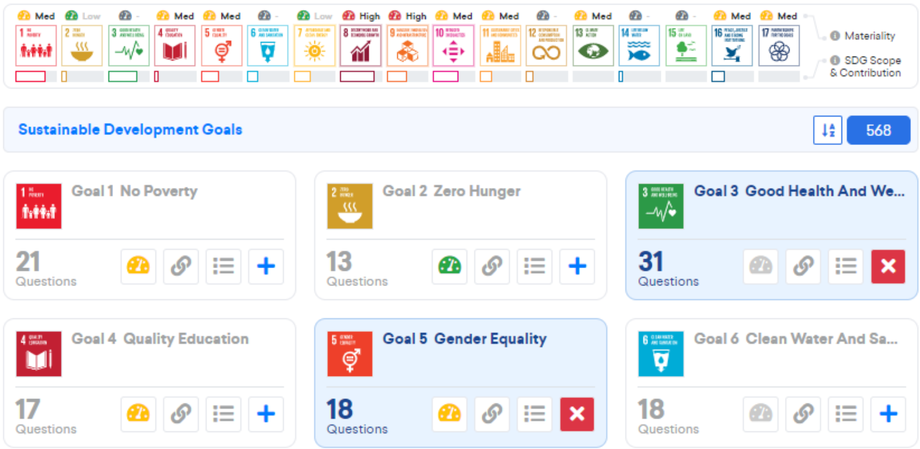


Source: RepRisk

World Wide Generation

UK early-stage company World Wide Generation (WWG) has developed a novel piece of software called Company Tracker. In essence, WWG has mapped all the key ESG standards and frameworks onto the 17 SDGs, providing a one-stop-shop for a company to develop its own ESG compliance plan.

Figure 68: Part of the Company Tracker configuration



Source: WWG / G17eco

Company Tracker enables a company to select which SDGs it feels it can contribute most towards, (Figure 68) as well as other standard and frameworks that it wants to comply with (GRIs, PRIs, B-Corp etc) and the software will automatically generate the questionnaire covering all these standards / frameworks. A company can gather all the necessary data and verification documents using the Company Tracker platform, forming the basis for submission to the various authorities, ratings agencies and its own ongoing ESG monitoring.

In our view, this software is a breakthrough for companies trying to navigate the extreme complexity of all the various ESG standards, as well as demonstrate continuous improvement towards specific standards to its various stakeholders.

Research					
Arshad Ahad	020 7220 0552	aahad@finncap.com	Guy Hewett	020 7220 0549	ghewett@finncap.com
Mark Brewer	020 7220 0556	mbrewer@finncap.com	Michael Hill	020 7220 0554	mhill@finncap.com
David Buxton	020 7220 0542	dbuxton@finncap.com	Nik Lysiuk	020 7220 0546	nlysiuk@finncap.com
Kimberley Carstens	020 7220 0548	kcarstens@finncap.com	Mark Paddon	020 7220 0541	mpaddon@finncap.com
Michael Clifton	020 3772 4682	mclifton@finncap.com	Nigel Parson	020 7220 0544	nparson@finncap.com
Lorne Daniel	020 7220 0545	ldaniel@finncap.com	Charlie Long	020 3772 4683	clong@finncap.com
Andrew Darley	020 7220 0547	adarley@finncap.com	Jonathan Wright	020 7220 0543	jwright@finncap.com
Raymond Greaves	020 7220 0553	rgreaves@finncap.com			
Equity Capital Markets					
Andrew Burdis	020 7220 0524	aburdis@finncap.com	Tim Redfern	020 7220 0515	tredfern@finncap.com
Richard Chambers	020 7220 0514	rchambers@finncap.com	Sunila de Silva	020 7220 0521	sdesilva@finncap.com
Barney Hayward	020 7220 0518	bhayward@finncap.com	Charlotte Sutcliffe	020 7220 0513	csutcliffe@finncap.com
Alice Lane	020 7220 0523	alane@finncap.com	Harriet Ward	020 7220 0512	hward@finncap.com
Sales					
Louise Talbot	020 3772 4651	ltalbot@finncap.com	Ruth Watts	020 7220 0520	rwatts@finncap.com
Malar Velaigam	020 7220 0526	mvelaigam@finncap.com	Rhys Williams	020 7220 0522	rwilliams@finncap.com
Jonathon Webb	020 7220 0511	jwebb@finncap.com			
Investor Relations					
Brittany Henderson	020 7220 0592	bhenderson@finncap.com	Lisa Welch	020 7220 0519	lwelch@finncap.com
Lucy Nicholls	020 7220 0528	lnicholls@finncap.com	Helen Worrall	020 3772 4652	hworrall@finncap.com
Brittany Stevens	020 3772 4653	bstevens@finncap.com			
Sales Trading					
Kai Buckle	020 7220 0529	kbuckle@finncap.com	Danny Smith	020 7220 0533	dsmith@finncap.com
Mark Fidgen	020 7220 0536	mfidgen@finncap.com			
Market Makers					
Steve Asfour	020 7220 0539	sasfour@finncap.com	Shane Watters	020 7220 0535	swatters@finncap.com
James Revell	020 7220 0532	jrevell@finncap.com			
Investment Companies					
Johnny Hewitson	020 7720 0558	jhewitson@finncap.com	Pauline Tribe	020 7220 0517	ptribe@finncap.com
Monica Tepes	020 3772 4698	mtepes@finncap.com	Mark Whitfeld	020 3772 4697	mwhitfeld@finncap.com

finnCap CAPITAL MARKETS

1 Bartholomew Close
London EC1A 7BL
Tel 020 7220 0500
Fax 020 7220 0597
Email info@finncap.com
Web www.finncap.com

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