

A quick guide to sustainable investor research (Part 1)

Working paper abstracts

This briefing is one of a series developed by World Business Council for Sustainable Development's (WBCSD) Redefining Value programme as part of the [Building Bridges](#) project, focused on strengthening the ability of investor relations managers to lead their firm's sustainable investor relations activity.

This document provides a precis of a full working paper, produced for WBCSD by Independent Research in Responsible Investment (IRRI), [Who's writing what for investors about sustainability and your company](#).

This Part 1 document gives a quick overview of the big picture on sustainable investment research, types and research and users. Part 2 provides more detail on specific ways research is used and presents an overview of the categories of sustainable investment research providers.

What's going on in sustainable investor research?

Over recent years, the number of assets incorporating ESG considerations in capital allocation has skyrocketed, as well as the availability of sustainable investing funds.

This trend has been driven by regulatory requirements and, more upstream, by a multitude of social and economic factors that are changing the face of society.

On a global level, inequalities are surging and a widespread bottom-up demand for social and climate justice follows alongside, while the effects of a warming planet are becoming more evident and severe each year.

These high-level factors – amongst others including developing regulation – have triggered an increasing focus for the financial sector on sustainable investment products and processes.

Such approaches were originally developed as a means by which to assess and drive the sustainability performance of companies. However, there is increasing recognition of the fact that sustainability issues present sources of strategic risk and opportunity which increasingly affect corporate value.

Several studies have demonstrated that companies with stronger environmental, social and governance (ESG) management practices are likely to offer higher financial returns and stability in the long term.

As a result, interest in the sustainability exposures and management practices of companies is on the rise, partially led by an increasing share of "mainstream" investors searching for market outperformance.

Sustainable investment research - not just ESG ratings agencies

Companies are generally aware that their sustainability management practices are being assessed by ESG ratings agencies, so that they can be included in ESG and low-carbon funds and indices.

What they may not know is that the breadth of the sustainable investment research being conducted on them is far larger in terms of focus and scope than they may realize.

There is also a significant lack of awareness around the different actors who are involved in sustainable investing, and how research is being used, by whom and for which investment purposes.

Most significantly, companies tend to care too much about data and ratings and may overlook the analysis written about them by sell side-brokers, credit rating agencies, engagement service providers and "for impact" and "grant-funded" research providers.

Together, these factors represent the main reasons why companies still struggle to integrate sustainability strongly and consistently into their strategic communications with investors. This means that there can be too much emphasis upon the minutiae of ESG data disclosure – which can often be irrelevant for mainstream investors – to the detriment of the development of tailored investment-relevant messages that can be used by those investors that ultimately allocate most capital.

What are the implications of the current situation for companies?

This situation means that companies are often losing time and opportunities when they communicate to investors about what's material for their businesses, their responses and strategies to these risks and opportunities, as well as their performance. This leads to potential forgone financial opportunities and misplaced capital allocation.

What are the different types of sustainable investment research ?

The research used for sustainable investment decisions falls into three main categories:

1. Data

Represent the quantitative information of a specific indicator that can be retrieved from a company's sustainability exposure or management practice (e.g., scope 1 and 2 GHG emissions, turnover rate, health and safety training hours, etc.).

2. Ratings

Based on banded scores obtained from the weighted aggregation of different data points. These grades are either derived from the available sustainability exposures directly in a quantitative format or they require a processing step, whereby a ratings analyst grades qualitative information into a quantitative form.

3. Analysis

Analysis is an assessment that reflects the interdependence between the sustainability exposures and management practices of a certain company with the key value drivers of their business, which ultimately affect stock prices.

Who uses which types of research ?

The final users of the wide array of sustainable investment research are typically represented by asset owners, made up of institutional and individual/private investors, and asset managers, commonly entrusted by asset owners with the responsibility to take investment decisions on their behalf. It's possible to differentiate between 3 main types of asset managers/investors:

1. Fundamental active investors

They analyze the financial fundamentals of companies in order to allocate capital and perform financial forecasts in order to select stocks.

What information do they need?

Contextualized information rather than comparable data. They are the main users of the analysis being conducted on companies and are willing audiences for proactive communications on financially material sustainability exposures.

2. Passive investors

They invest in an index of companies and weight their holdings in these companies in the same proportion as the market cap weightings of those companies in the underlying index (such as the S&P 500 or the FTSE 100). **What information do they need?** Simple but broad datasets.

3. Quantitative (Quant) investors

They use statistical inferences to create models for predicting future stock price moves. They aren't interested in the strategy or the governance of a company, but rather on quantitative information that can be converted into financial insights.

What information do they need?

Comparable time-series data sets and granular data, exactly the kind of data that is generally demanded of companies. However, it's worth noting that only a few sustainable quant investment funds are currently active.

Separating the signal from the noise

Data and Ratings dominate the public debate, regulatory expectations and – to some degree – asset manager activity. They are widely used for stock screening and for client reporting.

However, analysis represents the research that is most likely to engage the interests of the fundamental active investors, who are typically the marginal buyers and sellers of stock and hence the ones who are likely to affect companies' share prices and to provide new capital to companies.

Additional resources

WBCSD's Building Bridges project has developed a range of guidance, insight and tools to support IROs to put sustainability at the heart of investor engagement.

Central to the project is a dedicated website, www.sustainable-ir.com, a free to access resource developed to support, inform and equip Investor Relations and sustainability professionals to communicate their sustainability exposures and activities more effectively to investors and analysts.



Sustainable IR provides overviews, case studies, FAQs, research & resources, perspectives and support & services covering all important areas of investor relations practice. In addition to Sustainable-IR, we have also developed a series of working papers providing insight and guidance in the following areas:

- [Are companies using their IR webpages to communicate sustainability effectively to investors?](#)
- [All change in sustainable investor relations](#) – an overview of shifting trends and focus of investors on sustainability/ESG, and implications on Investor Relations.
- [Who's writing what for investors about sustainability and your company](#) – an overview of the types and purposes of sustainable investment research (including data, ratings and analysis).
- [Show me the \(sustainable\) money](#) – assessing and listing asset managers that are allocating capital towards sustainability solutions or transitions.
- [Capital... naturally – Alignment of sustainability and investment value drivers](#)
- [Capital... naturally – Nature & biodiversity in investor presentations](#)

Contact

For further insight and information on our tools and resources, contact redefiningvalue@wbcsd.org

About WBCSD

WBCSD is the premier global, CEO-led community of over 200 of the world's leading sustainable businesses working collectively to accelerate the system transformations needed for a net zero, nature positive, and more equitable future.

Project development and support

Building Bridges has been developed with SRI-Connect and has been funded by the Gordon and Betty Moore Foundation's Conservation and Markets Initiative. For more information, please visit www.moore.org.

