Who uses and who writes sustainable investor research? (Part 2)

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

How is sustainable investment research used?

Environmental, social and governance (ESG) data is used by:

- **fundamental active investors**, as they might be looking for a correlation between a specific indicator and potential business opportunities.
- **active investors**, as a screening tool for analyzing portfolios, ahead of a more in-depth analysis and final stock selection.
- **passive investors**, for the creation of ESG indices (e.g., the S&P ESG Index family, which is based on S&P Dow Jones Index ESG scores).
- **quantitative investors**, as they use data series to look for correlations between sustainability and economic performance.

ESG data is developed by ESG ratings agencies and specialist data providers, although a few credit agencies are also developing data services as part of their analytics offer.

Ratings are used by:

- **fundamental active investors** for basic risk or controversy screening. They also use ratings to determine "best-in-class" funds (a strategy mostly used in Europe).
- **passive investors** who want to invest in indices of high-rated ESG companies.
- opportunistic **asset managers** who want to jump onto the sustainable investment bandwagon.
- **asset owners** who want to track the "ESG performance" of asset managers.

Ratings are developed by ESG ratings agencies, some credit ratings agencies and data providers, engagement service providers, for impact and grant-funded research providers.

Analysis is used by:

- **investors** who aim to deliver fundamentally integrated sustainability funds.
- **mainstream investors** that consider sustainability-related issues to be an additional factor to align with the 'mainstream' investment analysis they already use.
- **thematic investors** who need to understand investment themes in value chains, within which they select stocks.
- **investors** who want to understand how sustainability factors affect business performance, ahead of deploying their engagement strategy with companies.

ESG analysis is developed by sell-side brokers, credit ratings agencies and independent research providers.

The different types of sustainable investment research providers

There are seven categories of providers, that can be listed alphabetically for convenience.

A. ESG Rating Agencies

B. Sell-side Brokers

C. Credit Ratings Agencies

D. Data Providers

E. Engagement Service Providers

F. For Impact

G. Grant-funded

A. ESG Ratings agencies

ESG rating agencies primarily collect data and information from companies, providing weighted, banded, grades available for asset managers/investors to buy and utilize as a comparison and investment tool.

B. Sell-side brokers

Sell-side brokers represent the research divisions of investment banks, and therefore they ensure that the sustainability analysis they write is relevant to the context of buying and selling shares. Currently, the majority of sell-side firms in Europe (and some globally) incorporate sustainability analysis within their investment research coverage.

C. Credit ratings agencies

Credit ratings agencies provide two main products to investors:

- Credit Ratings: graded opinions that identify the likelihood that the issuer of a debt will default on that debt (i.e., fail to pay back the initial loan and the accumulated interest).
- Research: contextualized assessment that aims at understanding the impact of financially-material issues on credit ratings in the future.

Sustainability-related considerations are therefore factored into credit ratings and the research developed by credit-rating agencies.

D. Data providers

Data providers supply ESG and economic data to investors. In some cases, they provide contextualized data and have investor-focused functionalities.

E. Engagement service providers

Engagement service providers support and co-ordinate engagement between investors and companies, mediating specific requests from investors to companies such as increased environmental or social practices or communications.

F. For Impact and G. Grant-funded

'For impact' and 'grant-funded' research providers are organizations that typically operate on a not-for-profit basis and their aim is to deliver environmental and/or social change.

They inform investors about environmental and social risks and opportunities and provide issue-specific research and rankings that aim to influence corporate behavior.

How can companies engage with research providers ?

Companies should be able to communicate effectively with these actors, as their research will affect the decision-making process of investors when they allocate capital.

To achieve the best chance of strong communication and recognition of strategic sustainability, companies need to make sure that relevant research providers clearly understand:

- their business context.
- how the company manages ESG-related issues within this business context.
- what the financially-material sustainability issues of the company are.

The engagement strategy that companies adopt must therefore be mindful of the differences between each research provider, how the research is going to be used and by whom.

As a general rule, companies should:

- be proactive in their communication strategy, rather than being passively scrutinized by research providers.
- listen to and address the concerns and uncertainties of research providers, so that more faithful research can be conducted.
- prioritize their engagement activities, according to what is most relevant for them.

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.

SustainableiR

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.

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