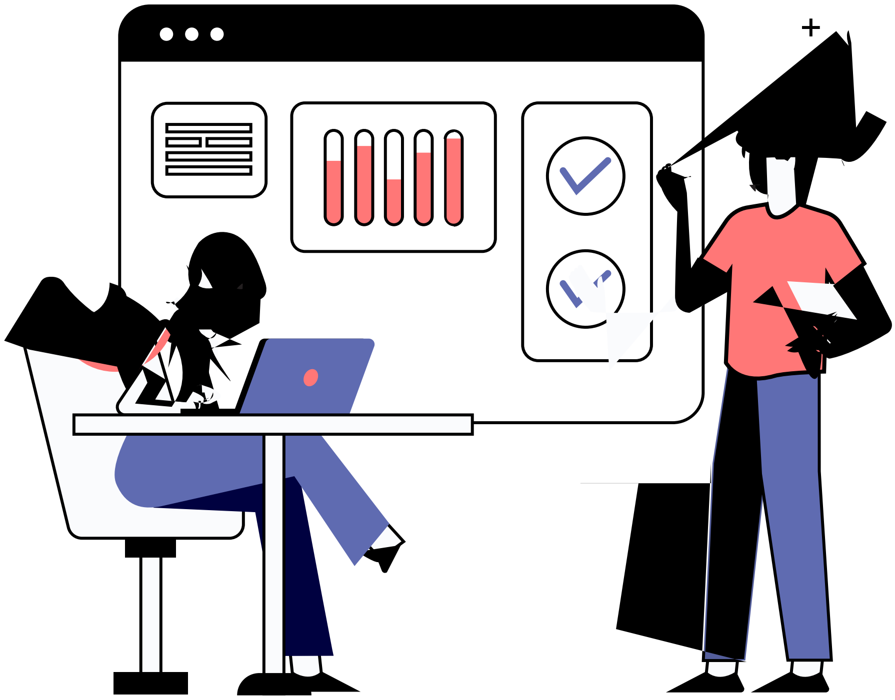

Qualities Investors Want to See in Your ESG Disclosure

It can be easy to feel overwhelmed when trying to determine what your organization should (and should not) disclose publicly when it comes to environmental, social and governance (ESG) data. Yet, enhanced ESG disclosure supported by a strong investor engagement strategy can increase a company's access to capital. In 2020, capital markets are demanding more ESG disclosure and less general sustainability/ CSR communications. Distinguishing between the two is important–disclosure, by definition, inherently requires a certain level of data quality assurance and could be subject to legal scrutiny.

Here are the important attributes your ESG disclosure should have to meet the information needs of investors, be assurance-ready, and reduce any risks of disclosure liability.

Material

Describing everything under the sun that your company does for its customers, employees, and communities can be useful for stakeholder engagement and brand storytelling.This is less interesting, however, for investors who are most concerned with *financially* material issues —issues that are reasonably likely to impact the financial condition or operating performance of a company.

Presently, many companies use a very broad definition of "materiality" that is based on the relevance of certain topics to their stakeholders. This approach has not produced the consistent, reliable and comparable disclosures that investors need. According to Danske Bank, *less than one-third* of reported sustainability information is financially material or otherwise useful for investment research and decision-making.

More and more investors are pushing for a single standard of material ESG disclosure to help filter out the "noise" and level the playing field for small and mid-cap companies who don't have the resources to reply to numerous stakeholders and third party data providers. The Sustainability

Accounting Standards Board (SASB) provides a good overview of the sustainability issues most likely to be financially material in a given sector and industry.

Quantitative

"You can't manage what you don't measure" is a long-used business aphorism that applies very well to ESG data. Using general boilerplate language to describe your sustainability commitments means very little. Investors are increasingly looking for specific information, including qualitative narrative backed up with clear performance metrics and targets. Quantifying your ESG performance shows investors that you track and manage these issues just as you would your other enterprise data.

Contextualizing this data is equally important. Clarifying whether you use absolute or intensity targets for GHG emissions and why, or how social risks are managed in your unique supply chain environments is very useful information that is not often captured by external parties, such as third party data providers.

Comparable

In the absence of mandatory reporting, aligning your ESG disclosure with a widely-used reporting standard or framework helps to provide information that is comparable among peers in a given industry, which is an important part of investors' analysis process. This is one of the reasons many institutional investors (such as BlackRock) are increasingly advocating for a common framework, such as SASB, which is hyper-focused on financial materiality and working to provide a clear set of standards for cost-effective reporting, and the Task Force on Climate-related Financial Disclosures (TCFD), another framework that focuses on climate-related financial risk, governance, strategy, and performance. However, given its longevity and adoption in the marketplace, the Global Reporting Initiative (GRI) is still the most widely-used standard. These reporting frameworks, along with others, are not mutually-exclusive and have elements that often overlap and/or complement each other.

Demonstrating year-over-year performance, using both quantitative and qualitative indicators, helps to provide a more complete picture of the efforts your company is investing in across sustainability. Maintaining consistency in the way these indicators are presented helps support investor confidence in your data story and performance track record.

Accessible

Given that sustainability reporting is still a self-regulated, voluntary exercise and that it is used for a variety of stakeholders and purposes, investors spend a lot of time searching for the decision-useful information they need. In addition, many companies still do not provide any ESG disclosure. Third-party data providers often play a role in filling this availability gap but with the caveat that their assessments can vary in methodology and accuracy.

If companies can clearly distinguish between (and format accordingly) their financially material and other ESG information, actionable ESG data can reach investors more efficiently and accurately.

Forward-looking

Understandably, investors want to know how the companies they are invested in plan to stay competitive and resilient in the face of emerging megatrends. Presently, most sustainability reporting primarily focuses on expanding transparency regarding current and past ESG performance. Providing forward-looking ESG performance aspirations helps investors better understand whether your company actually considers ESG risks and opportunities within your culture and strategic thinking. Forward-looking narratives can also provide a link between the impacts of your business activities and how current ESG efforts might contribute to future financial performance.

What is your company’s vision for sustainability within your overall corporate strategy? How does your board set or oversee this vision? Investors need to see that ESG is integrated into long-term strategy and risk management, as well as understand any uncertainties underpinning this outlook.

Own and manage your ESG narrative

At the end of the day, if you are not owning and telling your own sustainability story to investors, you need to know that someone else already is. From analysts to third party data providers to ESG ratings, the marketplace needs decision-useful information to make capital allocation decisions. It’s important to remember that you don’t need every data point or policy approved and in place before getting started with (or improving) your ESG disclosure. Consider an ESG data management and analytics platform like Novisto to help get your internal ESG indicators, policies, and systems up and running and organized in one place. We help companies gain deep, contextualized insight into their ESG performance through easy data collection, investment-grade quality control, reporting guidance, benchmarking, and actionable data to make better decisions. Finally, we enable companies to deliver targeted messaging to internal and external stakeholders (such as investors), using the channels that matter most to them.