SUSTAINABILITY DIALOGUE:

# Aligning Investor Influence with Corporate Sustainability

Companies face expectations from various stakeholders including employees, customers, consumers, regulators and investors to demonstrate their commitment to address sustainability issues. Investors are also increasingly incorporating sustainability into their investment and stewardship considerations.

The question that we set out to address in this dialogue:

> ***How can we better measure, communicate, and align the impact of investments with corporate strategy efforts, benefitting both investors and corporates in pursuing sustainable goals?***

# Sustainability
## Dialogue Contents

# Highlights of this Dialogue

## SUSTAINABILITY

### What Is the Key Principle?

**Complexity** is a key theme of this dialogue. Rapidly changing regulations, diverse stakeholder expectations, and emerging technical issues combine to create a complex environment in which to analyse and communicate the impact of corporate sustainability efforts and ensure alignment with stakeholder expectations. There are a wide variety of views, which means a nuanced approach is needed to enhance mutual understanding and support improved decision-making, in order to enable both investors and corporates to deliver sustainable outcomes.

### What Did We Discover?

**The shift from Aspiration to Action:** Both corporates and investors recognised the need for a practical and action-oriented approach to sustainability. The common thread is the urgency to move beyond philosophical discussions to translate ambitions into tangible actions and impactful outcomes, on top of the tsunami of regulation and legislation surrounding sustainability that is impacting corporates and investors alike.

**The value of Investor influence:** Investors were seen to possess a significant power to drive change, yet there may be an underestimation of their influence. Corporate representatives responsible for sustainability initiatives expressed a desire for investors to be more assertive in their expectations from senior management and boards with regards to their sustainability-related action and performance. Insightful questions posed by investors, especially to leadership figures such as Chairs, CEOs, and CFOs, serve not only to keep sustainability atop the agenda but also act as a litmus test, signalling the importance of sustainability to them.

**Reporting taking centre stage:** Reporting, especially in environmental, social, and governance areas, is overtaking the agenda for companies and investors. This focus often overshadows discussions on real world impact as both entities grapple with rising regulations and stakeholder disclosure expectations.

**Acknowledging Shared Vulnerability:** Both corporates and investors shared a vulnerability in their pursuit of sustainability, distinguishing it from conventional decision-making. The inherent uncertainty in data quality, the rapid pace of change, capital investment required, and the extended time horizons make this pursuit challenging. These factors necessitate a different style of dialogue to enable a deeper understanding and connection between corporates and investors.

### What's Next?

In such a complex environment, corporates and investors both face enormous challenges as they seek to create and coalesce around compelling and integrated sustainability. Targeted dialogue can help investors and corporates align expectations and identify approaches to ensure a focus on decision – useful information.

Ultimately corporates and investors will need to determine if they want to tackle these challenges via relationships based on mutual respect and trust or to engage via a disclosure and assurance regime that seeks to hold to account by raising questions over greenwashing and limited ambition.

# Overview of the Current Market Landscape

**The dialogue with Chief Sustainability Officers or those responsible for sustainability is new and evolving at an exponential pace, driven by its ever-increasing importance in today's business environment. There is a heightened level of complexity resulting from rapidly changing regulations, diverse stakeholder expectations, and emerging technical issues. The growing recognition of sustainability as a core driver of organisational value and resilience, coupled with the escalating importance of sustainability considerations in investment decisions, is reshaping this dialogue between companies and investors at it adapts to the business landscape.**

**Motivations:** Companies are coming to the sustainability conversation for various reasons – eg the business opportunity, to manage risks, regulation and reporting requirements compelling them to, because capital markets reward them for doing so, heightened scrutiny from society – or because they genuinely want to make a positive real-world difference.

Investors also come with differing reasons – eg client mandates, to fulfil portfolio reporting requirements, to spot early opportunities, to manage systematic and company specific risks, or to demonstrate commitment to a single issue they have chosen to differentiate themselves in the eyes of the market.

**Maturity:** The dialogue overall is evolving from an early stage, necessitating ongoing adaptation to emerging standards, regulations, and stakeholder expectations. After a period of discussion and development the focus has shifted to delivery and practical actions.

**Challenges and Opportunities:** The fast-paced changes pose challenges in keeping up with this rapidly developing dialogue, but they also offer opportunities for both corporates and investors to demonstrate commitment to sustainability goals and for aligning strategies with evolving ESG considerations.

**Corporate approaches:** Companies are embarking on huge programmes of internal change and introducing new architectures to operationalise aspirations, deliver net zero intentions, and gather the data required to comply with new reporting regimes.

It is evident that each company must tailor its governance, systems and processes to suit its unique business context and its point on the sustainability journey. Sustainability teams are becoming much more cross-functional and can comprise individuals from finance, IR, policy, or specialist backgrounds, and have a variety of reporting structures. Increasingly individuals are transitioning from traditional sustainability roles to finance, especially for investor engagement and reporting, while many finance professionals are enhancing their skills to handle sustainability matters. In some cases, sustainability teams are reporting into CFOs.

Regardless of the approach, top-level endorsement and strategic guidance are essential for sustainability teams to be truly effective, with CEO buy-in playing a crucial role, as well as Board level oversight.

Participants emphasised the importance of sustainability expertise and credibility at the Non-Executive Director (NED) level in driving management toward sustainability goals. Finance teams are also assuming a more prominent role in ESG integration, particularly in data management and reporting, signalling a shift towards holistic financial disclosure and accountability.

> ***"We are all learning and many corporates are evolving to create roles to help drive change internally and deal with the myriad of reporting and disclosure requirements, as well as support the CR team from a finance perspective on a number of workstreams."***
>
> *- Director ESG Finance, FTSE100*

# Overview of the Current Market Landscape

**Investor approaches:** Investors are actively recalibrating their strategies and engagement approaches to align with their sustainability agendas and to meet client demands. Structures and resources have been realigned to accommodate the ESG integration, with dedicated teams and specialised expertise brought in.

**Impact on relationships:** There is a growing emphasis on transparency and disclosure from both companies and investors to assess long-term sustainability performance. The complexity and volume of sustainability reporting necessitates dedicated resources and expertise to ensure robust compliance and meaningful impact assessment and continued investment in sustainability governance and capacity-building initiatives.

The dialogue between companies and investors is diverse and often in its early stages. Both need to exchange insights and perspectives on emerging sustainability trends, regulatory developments, and industry best practices. As sustainability issues grow in complexity and scope, collaborative engagement and knowledge-sharing become increasingly important to navigate the challenges of sustainability integration and impact measurement.

> ***"There isn't a clear blueprint for how collaboration between investors and corporations on sustainability initiatives is supposed to work."***
>
> *- Director of Sustainable Business, FTSE100*

**Changing paradigm:** Participants indicated that pursuing a sustainability agenda presents both companies and investors with a unique uncertainty, unlike conventional business decisions. The difficulties surrounding sustainability data, the longer timeframes needed for meaningful impact, and the evolving understanding of ESG factors create a dynamic landscape where traditional risk assessments may not suffice.

> ***"Not having all of the answers requires an unusual amount of vulnerability, which a lot of leaders aren't used to demonstrating. It's not in their DNA, because that is not the way that they've been running businesses for the last 25-30 years."***
>
> *- Director of Sustainable Business, FTSE100*

Consequently, a paradigm shift is occurring in how companies and investors engage in dialogue, involving more individuals being upskilled on sustainability issues, additional use of specialist expertise and commitment to improving understanding on both sides. Traditional metrics and financial indicators, while still relevant, must be complemented by a deeper understanding of ESG factors and a willingness to embrace a longer-term investment horizon. The uncertainty inherent in sustainability data necessitates

# Overview of the Current Market Landscape

a commitment to ongoing transparency and collaboration among experts from both companies and investor groups. There is recognition that there is underlying value in these broader conversations, but frustration because its nascent nature and the ecosystem isn't fully developed, often resulting in a suboptimal and inefficient dialogue.

> *Whilst there are massive benefits from investors focusing on non-financial performance as well as financial performance, it's hugely onerous and time-consuming, and it can be somewhat disengaging."*
>
> *- Investor Relations Director FTSE100*

This is a work in progress, but ultimately, companies and investors embracing this vulnerability as an opportunity for collaboration and innovation will be better positioned to navigate the complexities of sustainability and contribute to a more resilient and responsible future.

**Summary of market considerations to be acknowledged:**

- Growing recognition of the importance of sustainable business practices.
- Proliferation of regulation and reporting requirements for both investors and corporates.
- Time and resource constraints for both investors and companies.
- No 'one size fits all' solution to optimal governance and reporting of sustainability issues – although board-level endorsement is key.
- Investors are recalibrating investment strategies and adjusting how they integrate ESG considerations in response to client demand.
- ESG ratings are useful tools, and external agencies can flag areas of concern for investors. Corporates need to be mindful of methodologies and scoring criterial to provide right inputs to achieve the right outputs.
- There's no established blueprint for sustainability collaboration between investors and companies. However, exchanging insights on sustainability trends, regulations, and best practices is crucial for mutual learning.
- Pursuing sustainability exposes both companies and investors to unique vulnerabilities, requiring a paradigm shift in engagement and specialised expertise on both sides.
- The discussions surrounding ESG and sustainability is mired in confusion and inconsistency, as terms are often used interchangeably or with disparate definitions, highlighting the importance for clearly defined language to ensure meaningful dialogue and actions.

# Sustainability Myths

**Before delving into key challenges, what works well and actions, it's important to 'bust' some of the myths that we uncovered specific to this dialogue to help set a clear framework for a more productive dialogue.**

## Myth: ESG Considerations Are Only Relevant for Certain Industries and Sectors

Reality: Environmental, social and governance factors are integral to all businesses but manifest in different ways and at differing levels of materiality. With the UK's commitment to a net-zero target, companies and investors alike must evidence their plans, activities, and actions towards sustainability. There are broader shifts in societal expectations and increased regulatory efforts that need to be addressed.

## Myth: ESG Is Exclusively a Risk Management Tool for Investors

Reality: ESG entails more than just risk mitigation. It spans both risks and opportunities. While effectively managing environmental, social, and governance risks is pivotal, embracing ESG also unveils opportunities for innovation, market differentiation, and sustainable growth. Recognising the dual nature of ESG, as a risk management tool and a source of opportunities, positions investors to make well-informed decisions that align with holistic success, resilience, and long-term value creation and it is incumbent on companies to communicate in this light.

## Myth: More Data Is the Answer

Reality: While sustainability data is undeniably crucial for gaining insights into a company's practices and track record, it is essential to understand that collecting data alone is not the solution to drive change. The true impact of sustainability efforts will be in capital allocation decisions that drive strategic investments and decisive actions. Investors play a pivotal role in providing the support needed to drive tangible and sustainable outcomes. Both companies and investors need to move beyond a sole emphasis on data reporting and collection and prioritise a longer-term perspective, recognising that strategic investments are crucial for achieving meaningful transition.

# What Companies Think

## KEY CHALLENGES

### Resource Investment and Meaningful Reporting

All corporates emphasised the substantial investment needed for reporting, investor engagement and action on sustainability issues not only in terms of financial resources but also in technology, human resources, and governance structures. There was an underlying commitment to addressing the needs of the market head on with the overriding objective to avoid turning ESG reporting into a burdensome process without meaningful impact. Many highlight the significant challenge corporations face in gathering and disclosing ESG data, especially for large, multinational companies. The scale involves dealing with diverse operations across numerous countries. For most companies the process is currently very manual with mixed quality, with recognition there is much work to be done to improve. There was a hope that new technology might make things more efficient in the future.

> ***"It is a huge undertaking in terms of the resource required, the systems investment, the people, and the controls and governance."***
>
> *- Director ESG Finance, FTSE100*

Investors look for signals on whether the sustainability story is integrated, in consistency of communications and level of transparency and disclosure.

### Integrating ESG Into Core Business Practices

All corporates expressed optimism about sustainability becoming an integral part of standard business practice. Some corporates acknowledge that there is still a prevailing perception that ESG is primarily the responsibility of corporate responsibility / sustainability team. This points to the ongoing challenge of shifting this perception and making ESG considerations a fundamental part of business operations and 'a part of everyone's day job'.

### Maintaining Focus on Material Issues

The challenge for companies is maintaining a balance between sustainability efforts and commercial performance. While acknowledging the importance of disclosure and doing the right thing, many emphasised the need to avoid detrimental impacts on commercial performance. Striking a balance between sustainability and financial performance is crucial to meet shareholders expectations.

> ***"Shareholder returns ultimately need to go up – that's what our shareholders are going to want us to do, as well as all the ESG stuff. So, it's just trying to keep everything in context, maintain that perspective and strike that balance."***
>
> *- Sustainable Finance Director, FTSE100*

Encouragingly most companies were comfortable with their material issues and suggested they would use this framework to help navigate and provide focus on the increasing disclosure requirements. Many companies shared a layering approach from their material issues to their additional disclosures so that they remained relevant and strategic.

> ***"We need to draw out what's material, and explain why things are not material. I want to focus on the key areas and explain why these are important, and why the other things I'm asked about are not important."***
>
> *- Investor Relations and Sustainability Director, FTSE100*

Investors appreciate companies having a strong narrative about what is important to them and why and accept push back if a disclosure request is on something that really isn't material, is confidential or

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at odds with the way they manage the business. However, they expect companies to be able to communicate on the full range of potential issues, to demonstrate that they have no blind spots.

### Gaining Insight into Investors' Methods of Accessing and Utilising Data

Companies are at different stages of their sustainability journey – both operationally within their business and in their engagement with investors. Some proactively engage with investors, while others take a more reactive approach, waiting for investor queries.

The lack of homogeny within the investment industry presents companies with a confused and opaque picture of priorities and information needs. Many corporates are conscious of the need to avoid greenwashing and want to ensure meaningful and relevant communication. This reflects the delicate balance companies must strike in presenting their ESG efforts transparently and authentically. Many find that investors generally understand key issues well and engaged fundamental investors are often understanding of the long-term challenges and uncertainties.

> **"Clever investors have listened well over the years, focused on the material issues and understand the impact on the business."**
>
> *- Investor Relations and Sustainability Director, FTSE100*

### Clarifying What Data is Relevant for Investors

Companies seek greater insight into what specific data and metrics investors are interested in, especially amidst the escalating complexity of core themes like climate, biodiversity, and human capital. Some companies have experienced a lack of consistency and tension from within the same investor institutions.

Understanding key focus areas amid the abundance of potential disclosures would help companies in prioritising. Companies expressed a desire to focus on meaningful data that informs better decision making and which is also strategic internally. However, they also expressed concerns about possibly not meeting all investors' needs.

Overall, companies accept disclosure and regulation as necessary. They emphasise the importance of identifying material ESG issues and linking metrics to strategy, remuneration and financial statements. However, there's an overarching concern that with excessive requirements there was a risk of diverting from meaningful decision-useful data to compliance, hindering innovation and progress. Companies hope that the focus on the interoperability between reporting frameworks and standards will enable consistency and reduce the burden on preparers, and help address the volume of ad hoc requests they receive from investors.

> **"If I'm spending all my time on reporting the numbers, then I don't have time to actually act on the numbers."**
>
> *- Chief Sustainability Officer, FTSE100*

### Managing Third Party Data Providers

There were mixed views on the external ratings, agencies and data providers among the companies. While all companies acknowledge that investors use research to varying extents, they face challenges in interpreting different criteria and ranking systems used by various providers. They recognise the importance of actively participating in the market disclosures but would like clearer guidance from investors on which disclosures hold the most value.

Companies would prefer to engage directly with investors to provide them the accurate and reliable information that

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they need. While they understand the role of external providers, experiences with ratings agencies and data providers vary. Some companies have had positive engagements, to verify and contextualise data, while others have found the experience less favourable. In response to increasing burden, diminishing resources, many companies have streamlined their focus to include only CDP, MSCI, Sustainalytics, and Ecovadis when relevant for their sector.

> ***"We've got different viewpoints on how investors use ESG ratings output, and how they feed this into their in-house analysis."***
>
> *- Sustainability Reporting Director, FTSE100*

### Understanding Investors' Preferred Methods for Accessing Information

Companies shared the challenge they face in providing information to investors. Understanding the diverse preferences of investors regarding formats, methods, and channels to access information is a primary concern. Companies are struggling to navigate the varied preferences of investors, who may prefer detailed reports, concise summaries, or interactive presentations. Additionally, the complexity and sheer quantity of information needing to be communicated in a clear and understandable manner poses difficulties. Many companies feel frustrated that, despite providing detailed information, investors may not be reading their materials. They are uncertain about the most effective way to ensure that their messages resonate with investors. Companies are also aware that they must adapt to technological advancements, which offer a wide array of communication channels, including traditional reports, online platforms, digital tagging and social media. Meeting regulatory requirements while ensuring transparency and clarity further adds to the complexity.

> ***"How do we produce this much information in the best format we can with minimal effort?"***
>
> *- Chief Sustainability Officer, FTSE100*

# What Companies Think

## WHAT DO INVESTORS DO WELL?

### Overall

- Companies value when investors are clear on issues and support companies to test, learn, and make progress and appreciate when investors understand that solving challenges overnight isn't realistic and they emphasise a gradual process of improvement and adaptation.
- Investors that move beyond short-term returns and engage in a deeper dialogue that involves understanding a company's long-term vision, its strategies for navigating sustainability challenges, and the integration of ESG considerations into core business practices.
- Open and clear dialogue, where both corporates and investors acknowledge the dynamic nature of sustainability challenges, share insights and commitment to learning and adapting.
- Investors who set the tone of a conversation by providing context for their data requests make a significant impact. For instance, they may explain that in order to retain companies in their fund, they require specific information to meet reporting and labelling requirements. This transparency helps companies understand the importance and urgency behind the requests.
- Companies value investors that engage meaningfully, seeking data points that truly help understand the business, focusing on quality over quantity.

### Specific to this Dialogue

- Some institutions openly communicate to companies the external ratings, agencies, and data providers they value, along with how this information feeds into their proprietary systems. Some institutions provide an online database which shows companies information about the metrics they use and how companies are assessed.
- Investors who invest time in reviewing a company's key materials and familiarise themselves with key issues are highly valued. This allows discussions to move beyond superficial information gathering to meaningful engagement focused on addressing real issues.

# What Investors Think

## KEY CHALLENGES

### Balancing Client Demands and Demonstrating Comprehensive Consideration of All Issues

Investors face several challenges in their roles, including managing the diverse demands of their own clients and demonstrating that all issues have been thoroughly considered. With asset owners having varied stewardship priorities, investors often grapple with the need to stand out while attempting to reach consensus on focal points. Additionally, simplifying information poses a significant hurdle as investors contend with time constraints and the inundation of data. Balancing the need for comprehensive insights with the limitations of time necessitates strategies to streamline information effectively.

> **"Investors have a hugely diverse range of stewardship priorities, and 'being different' can be a USP, so companies are unlikely to get an agreement on the few things they should focus on."**
>
> *- Stewardship Director, Global Investment Manager*

### Effectively Managing Time Amidst an Abundance of Information

Investors encounter the huge challenge of navigating information to address their time constraints amidst an overflow of data. With a deluge of information available, investors must sift through vast quantities of data to extract pertinent insights efficiently.

Investors stressed the importance of companies being clear about their key issues and prioritising their communication efforts. They advise companies not to attempt to address every possible concern but rather to focus on what truly matters. According to investors, information provided by companies should be firmly anchored in their business and strategy. This approach ensures that sustainability initiatives are closely aligned with core objectives, enabling investors to better understand and evaluate a company's sustainability efforts within the broader context of its strategy and performance.

> **"Companies need to be more rigorous in saying these are the ESG priorities. Companies have got too caught up in the idea that they need to be all things to all people. They need more of a grip on their own agenda – need to be much clearer themselves as to what the key issues are."**
>
> *- Sustainability Reporting Director, FTSE100*

Investors are aware that the complexity of various reports, sustainability metrics, and industry analyses further compounds this challenge. Consistency in data is the most important thing. Giving the same data in different reports is imperative. Effectively distilling complex information into concise, digestible formats with clear linkages and cross referencing is helpful for investors to make informed decisions within limited timeframes. When companies are meeting reporting requirements or adhering to frameworks and standards such as SASB, it is helpful to cross reference information in reporting for clarity and accuracy. Streamlining information not only enhances comprehension but also facilitates quicker analysis and decision-making processes, enabling investors to navigate the dynamic financial landscape with agility and precision.

# What Investors Think

## WHAT DO COMPANIES DO WELL?

### Overall

- Companies that prioritise clear communication and proactive engagement in favourable conditions build stronger trust and confidence among investors, laying a robust foundation for enduring relationships.
- Streamlining reporting and communications to present a summary investment case, value drivers, and key differentiators in a clear and accessible manner at each interaction helps investors' understanding amidst the information overload.
- Investors appreciate when corporates assist in balancing short-term trading updates with the broader context of the business. Including strategy, business model insights, and historical data in quarterly presentations, often available in an appendix, enhances transparency and investor understanding.
- Companies that emphasise their sustainability angle in initial meetings, highlighting their company thesis, strategy, and business model. A CEO's strong emphasis on sustainability signals genuine commitment, serving as a green flag for investors.
- Maintaining consistency in data across all reports and communication so that investors receive a cohesive and consistent story, builds credibility and trust and reliability in reporting practices.
- Best practice for companies is to centralise all relevant information in one easily accessible location on their website, typically within the investors section. This centralised hub could include clear descriptions of the contents of each report to guide investors effectively.
- Cross-referencing tables to commonly used frameworks such as CSRD, SASB, and GRI can enhance transparency and ensure that investors understand the company's intentions regarding sustainability reporting.

# What Companies & Investors Think

## SHARED CHALLENGES

### Focusing on Materiality With Evolving Investor Expectations

One of the key challenges for both investors and companies was determination of materiality in the context of sustainability issues. For companies focusing on material issues helps them to effectively allocate resources, streamline reporting efforts and address the key concerns of investors and other stakeholders. This in turn helps investors better understand companies. However, this is often complicated by the presence of differing reporting standards, regulation and client expectations which can obscure clarity and consistency.

> **"We are getting hit by an alphabet soup of regulation, all with different materiality thresholds."**
>
> *- Chief Sustainability Officer, FTSE100*

All of the companies involved had a clear idea of the material issues for their business, which were integrated into their strategic pillars of the business and their valuation creation story. All emphasised that they focus on prioritising this in their communication and reporting. (Note: not all companies are that advanced, but the participants in this dialogue were very established.)

Companies understood the dynamic nature of materiality and the need to be refreshing and reviewing materiality assessments on a regular basis. Interestingly, all companies also shared that they were undertaking a 'double materiality' approach this year to understand more clearly the externalities of their business and prepare for better understanding of their stakeholders and impact as well as upcoming mandatory requirements of CSRD.

In addition, all participants shared that their director remuneration was linked to ESG metrics in some way – either short- or long-term plans. There was an appreciation that it was still a small percentage of overall target (30% or less), but a helpful one to align the business objectives and strategy. Many companies were also looking across their organisations to develop relevant sustainability linked performance targets for all levels across the organisation. It's still early to determine whether this is in response to investor expectations and/or if it's effectively changing behaviours and driving real-world change.

Investors acknowledge that materiality evolves over time, often influenced by media coverage, legislation changes, or global commitments, and should always align with a company's strategy and value creation narrative. While SASB is considered a valuable starting point for materiality assessment, investors advocate for companies to conduct their own evaluations rather than relying solely on standardised versions. Identifying issues as material signifies an understanding of their impact, a willingness to address them, and a commitment of resources, indicating a serious approach to sustainability.

Investors also highlight the necessity for investor relations to comprehend materiality matrices, understanding the rationale behind identified issues and their implications.

> **"We understand companies can't measure everything that matters in pure data. But having a measure shows awareness, and a way for progress to be tracked."**
>
> *- Portfolio Manager, Asset Manager*

Investors recognise the limitations of measuring every relevant aspect solely through data but stress the importance of demonstrating awareness and tracking progress. However, they expect companies to be able to articulate the return impact of their sustainability initiatives. Challenges arise when discrepancies occur between material issues highlighted in sustainability reports and those identified as principal risks in regulatory filings. Finally, while companies may define their material issues, investors

# What Companies & Investors Think

## SHARED CHALLENGES

stress the importance of engaging on areas they identify, which may represent blind spots or systemic concerns for the company.

> *"Identifying an issue as being material shows the company understand the impact, has a willingness to commit resources to address them, and takes it seriously."*
>
> *- Investment Analyst, Asset Manager*

### Addressing Data Quality, Standardisation and Assurance

Corporates want information to be as accurate as possible and increasingly acknowledge the necessity of external assurance for sustainability data. They emphasise that assurance for this data may differ significantly from financial assurance due to its evolving nature and lack of clarity. The complexity and the maturity of sustainability metrics further complicates matters, with carbon-related metrics benefiting from established protocols while other areas, such as biodiversity, lack consistency in measurement. Bridging the gap between internal tracking and external disclosure, alongside determining materiality, remains a crucial challenge. Some corporates noted the challenge posed by this uncertainty for both management teams and investors.

In practice, the audit committee typically oversees assurance efforts, often engaging audit firms for limited assurance, with the audit committee ultimately signing off on the results. However, there is a notable lack of clarity surrounding the mechanics of assurance processes, compounded by confusion regarding the role of major auditing firms. Corporates also recognise the substantial task of upskilling internal teams and audit committees to comprehend data intricacies, as they may not be accustomed or comfortable with such levels of assumption. Companies recognise there is significant work to be done in this evolving area.

> *"The challenge is people feeling comfortable with the unknown, if they don't have the exact number. A lot of this is estimated data. As we learn more, data quality will improve and people will get more sophisticated in their understanding."*
>
> *- Director of Sustainable Business, FTSE100*

Investors have sympathy with the difficulties associated with auditing non-financial information but do expect that over time, such data will attain a level of assurance equivalent to financial data. There is agreement on the importance of consistency and standardisation across data metrics. Data providers are recognised for their pivotal role in data aggregation, with many investors relying on these systems as primary sources. In addition, there is anticipation about the potential of AI to enhance data processing capabilities in the future.

Some investors caution against unrealistic expectations regarding the assurance process for non-financial information, emphasising its inherent differences from financial data assurance. They highlight the value of narrative reporting in providing insights into risk management attitudes and long-term perspectives. There is a desire for concise reporting formats that focus solely on the most material issues, incorporating case studies, data, and narratives for clarity.

> *"We start with the assumption that the data is correct. Lack of validation is not end of the world. Keep consistent measurement principles and disclose assumptions. At some point, we will want the data audited, but we don't want to encourage this now if it's too difficult."*
>
> *- Socially Responsible Investment Analyst, Investment Manager*

# What Companies & Investors Think

## SHARED CHALLENGES

There's a recognition that while initial assumptions about data accuracy are made, lack of validation isn't catastrophic, as long as consistent measurement principles and disclosure of assumptions are maintained. Investors also acknowledge the imperfections in ESG data scores from external agencies but find them valuable as starting points for analysis. Ensuring consistency in data remains a top priority, as different information across various reports undermines investor trust.

### Navigating the Regulatory Maze

Adapting to evolving landscapes while maintaining compliance poses a shared challenge for both corporates and investors. Corporates recognise there is becoming a much more codified sense of disclosure with all the changes in regulation, legislation and the adoption of reporting standards. They anticipate that quality will improve over time but acknowledge the need to absorb the changes efficiently. There is a desire for a more practical and pragmatic approach to company disclosures and they are hopeful that this will provide a level playing field for that more useful discussion. Companies anticipate investors may emphasis compliance with standards like CSRD (Corporate Sustainability Reporting Directive) and ISSB (International Sustainability Standards Board), viewing these as benchmarks for ESG reporting. Companies seek clarity from investors regarding their preferences on global regulations and standards that they endorse for sustainability reporting and compliance.

> ***"The reporting landscape is completely overwhelming. We'd like to understand whether investors are supportive of more regulation and what other things will be important in the future – nature?"***
>
> *- Head of Rating Agency Relations, FTSE100*

Investors also expressed anticipation for the ISSB and the CSRD acknowledging the anticipated rigour and structure these standards may bring to sustainability reporting. They see benefits in the associated taxonomies in facilitating consistent and comparable reporting across companies and industries. However, they also admitted uncertainty about how they would utilise the abundance of new data points generated by these regulations. Despite this uncertainty, investors are generally supportive of efforts to enhance regulatory and compliance frameworks in the sustainability reporting landscape.

> ***"We will want to see taxonomy aligned revenue."***
>
> *- Investment Analyst, Asset Manager*

# What Companies & Investors Think

## WHAT DO COMPANIES AND INVESTORS DO WELL?

### Companies

#### Overarching

- When companies prioritise clarity and transparency regarding their material issues and connect them to their overall strategy instead of solely focusing on compliance-driven reporting, it demonstrates a deeper understanding and confidence in their operations.
- When companies clearly demonstrate that ESG matters are fully endorsed by the CEO and the board, it sends a strong signal to investors regarding integration into the company's strategy and operations. This integration and commitment to transparency is reinforced when linked to remuneration practices and when substantial changes in sustainability targets are treated with the same gravity as financial target adjustments. Demonstrating awareness and understanding of the return impact of sustainability initiatives strengthens credibility.
- When companies connect and synthesise their reporting and communications in a strategically driven manner, integrating the importance of sustainability issues with financial performance, it results in consistent and coherent messaging that is more easily accessible.
- When companies provide access to sustainability specialists for both investors and themselves, it facilitates deeper conversations that lead to a comprehensive understanding of broader business and strategic aspects. This collaborative approach helps to focus on the holistic integration of sustainability into the company's operations and strategy, enhancing understanding and trust and mutual learning between investors and companies.

#### Specific to this dialogue

- Companies that focus on consistency and standardisation across sustainability metrics, with clear measurement principles and disclosure of assumptions help investors understand reliability and comparability.
- Investors appreciate companies increasing acknowledgement of the necessity of external assurance for sustainability data and value when companies that remain adaptable and committed to learning and improving in this evolving area.
- Companies that anticipate and adapt to changing regulatory and reporting landscapes with a practical approach to disclosures and seek clarity on investor preferences foster greater alignment and understanding.
- When companies invest effort in understanding investors' objectives, including diverse client demands and internal policies a more effective dialogue will result. Understanding whether investors are focusing on systemic risks or specific company issues and their underlying motivations and request will ensure that information and actions are tailored.

# What Companies & Investors Think

## WHAT DO COMPANIES AND INVESTORS DO WELL?

### Investors

#### Overarching

- When companies sense that an investor is genuinely 'invested in the management team', fostering constructive conversations even during challenging times, a strong sense of support and trust emerges. This supportive dynamic allows for more open dialogue and enables the business to make informed and longer-term decisions.
- When investors act as effective 'non-executives', companies find themselves engaged in broader, more meaningful strategic dialogues. This engagement allows for a deeper understanding of each other's perspectives and long-term considerations for the company, fostering a relationship built on mutual learning and shared strategic vision.
- Providing clear messaging and reinforcement that it's acceptable to prioritise three or four issues relevant to their business, rather than attempting to cater to every stakeholder's demands. This targeted focus allows companies to streamline their efforts and allocate resources more effectively, fostering a strategic alignment with their core objectives.
- When investors delve beyond the surface-level data and invest time in understanding the nuances behind the numbers, it signals a productive relationship. For instance, shifting the focus from generic metrics like 'number of women on the board' to exploring the dynamics and operations of the board reflects a commitment to understanding the intricacies of the company's governance and decision-making processes.

#### Specific to this dialogue

- When investors recognise the evolving nature of sustainability standards and acknowledge the infancy of data and reporting in some areas it gives companies confidence to continually learn, develop and refine approaches.

# Actions for Companies & Investors

## TOP TIPS FOR COMPANIES

- Not every business needs to be the best at ESG; focus should align with the company's core values and mission and show progress over time.
- Understand the materiality of issues within your company and use this understanding proactively to address regulatory requirements. Align reporting efforts with strategic objectives to ensure coherence and relevance.
- Be bold in crafting and owning your narrative, emphasising your unique value proposition and sustainability journey.
- Communicate with straightforwardness and authenticity in all interactions to build trust and credibility.
- Avoid unnecessary complexity in reporting by providing clear summaries and linkages and present information in various formats tailored to the needs of different investors.
- Clearly articulate the reporting frameworks and standards used, explaining the rationale behind their selection.
- Be selective in responding to surveys and data requests, ensuring alignment with your narrative and strategic priorities.
- Understand the diverse needs of different investors and how they utilise data and reporting. Be aware of the pressure and influence of different asset owners' mandates on asset managers.
- Tailor your communication and reporting strategies to effectively meet different needs.

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## TOP TIPS FOR INVESTORS

- Encourage internally joined-up meetings with both ESG specialists and portfolio managers when discussing key issues.
- Collaborate with other like-minded investors on key issues to amplify the collective voice and influence. By pooling resources and expertise when relevant, investors could enhance their effectiveness on some issues.
- Encourage companies to streamline efforts and allocate resources effectively, aligning with core objectives and strategic focus.
- Invest time in understanding the nuances behind the numbers and metrics presented by companies. Read the reports that are produced.
- Provide clarity on your key issues of interest.
- Help promote consistency of demands on companies from involvement in collaborative initiatives such as IIGCC.
- Provide greater clarity on how you use raters, rankers and data internally, and use some professional scepticism when consuming their research on complex areas.
- Share commitments and preferences to reporting standards, metrics and frameworks.