ESG ratings in Germany
Survey among investor relations & institutional investors

Frankfurt/ Hamburg, December 2018
Why this study?

- Larry Fink, BlackRock: “Sustainable Investing will be a core component of investing – we are only in the early stages”.
- Global Sustainable Investment Alliance: AuM under ESG criteria >$23tr (+60% compared to 2012).
• Investor Relations Officers (IROs) experience continuous increase in demand to comment on ESG evaluations and answer ESG questionnaires.

• Growing amount of IROs’ time needed for gathering data and checking evaluation results, while value not always obvious.

• Objective of survey conducted by DIRK, DVFA and Schlange & Co. (“S&C”): Evaluate the opinion of IROs and institutional investors (“II”) on ESG rating agencies and the value of rating results.

• Survey carried out 3 weeks in September 2018 with sample of approx. 1,200 IROs, 2,700 IIls and 8 ESG rating agencies.
Executive summary
Key findings (1/2)

- Response rate high with 167 IROs and 94 IIs; Number of “Don’t know” answers regarding ESG rating agencies’ evaluation approach was high.

- Half of IROs and IIs believe that sustainability is of high importance for a company’s overall performance and they expect this to further gain in importance.

- The majority of respondents believes that sustainability produces tangible value and increases operational efficiency.

- The most important criteria for evaluating a company’s sustainability performance are meaningful KPIs and a resilient strategy with concrete objectives.

- The majority of IROs prefers in-person discussion as a communications channel, while most investors prefer communication via print or electronic media.

- IROs mostly refer to missing information as reason for poor ESG communication, while most IIs believe that this is due to IROs lacking interest or poor preparation.
• Many IIs and ESG rating agencies believe that only a minority of IROs is sufficiently aware about sustainability and the company’s ESG performance; IROs don’t seem to always have a clear management mandate to report transparently.

• MSCI and ISS-oekom appear to be the most relevant rating agencies; their research is commented by most IROs and is used by the highest number of IIs.

• IROs rank RobecoSAM highest followed by ISS-oekom and CDP based on the criteria: quality, added value, coverage, presentation, interaction and innovation.

• IIs rank MSCI the highest followed by ISS-oekom and Sustainalytics based on the same criteria.

• The role of CDP as both - rating agency and data supplier to other rating agencies - is not sufficiently understood.
• Given the increasing importance of ESG in capital markets an active approach towards ESG ratings can only be encouraged; companies hesitating to do so run the risk of becoming excluded as an eligible name for institutional investors.

• Therefore, it is strongly recommended that IROs become more familiar with their own company’s sustainability performance, with IIs’ approach with regard to ESG in the asset allocation process, and with the work of ESG rating agencies.

• The added value for companies is increasingly being demonstrated by lower financing cost and/or increased operational performance.
The overall importance of sustainability
Most respondents consider sustainability of high importance with regard to companies’ performance

How important is sustainability with regard to a company’s performance in general?

<table>
<thead>
<tr>
<th>Importance Level</th>
<th>Investor Relations</th>
<th>Institutional Investor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high importance</td>
<td>10.9%</td>
<td>14.3%</td>
</tr>
<tr>
<td>High importance</td>
<td>39.8%</td>
<td>33.8%</td>
</tr>
<tr>
<td>Medium importance</td>
<td>25.8%</td>
<td>19.6%</td>
</tr>
<tr>
<td>Low importance</td>
<td>14.8%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Very low importance</td>
<td>6.3%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Not at all</td>
<td>1.7%</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

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Mehr Wert im Kapitalmarkt
Sustainability will continue to gain in importance in the future

Will good sustainability performance gain in importance in the future?

Yes: 86.7% (128 Votes)
No: 5.5% (56 Votes)
Uncertain: 14.3%
I do not know: 2.3%
The majority of respondents believes that sustainability produces tangible value.

<table>
<thead>
<tr>
<th>Good sustainability performance does...</th>
<th>Investor Relations (128 Votes)</th>
<th>Institutional Investor (56 Votes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>... create long-term shareholder value.</td>
<td>88,3% 6,2% 5,5%</td>
<td>76,8% 12,5% 10,7%</td>
</tr>
<tr>
<td>... increase operational performance.</td>
<td>64,1% 18,7% 17,2%</td>
<td>64,3% 19,6% 16,1%</td>
</tr>
<tr>
<td>... reduce financing costs.</td>
<td>50% 26,6% 23,4%</td>
<td>57,1% 30,4% 12,5%</td>
</tr>
</tbody>
</table>
### KPIs, strategy and objectives are critical for evaluating a company’s sustainability performance

#### How important are the following aspects to investors?

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Investor Relations (128 Votes)</th>
<th>Institutional Investor (56 Votes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meaningful KPIs and reporting processes</td>
<td><img src="chart1.png" alt="Bar Chart" /></td>
<td><img src="chart2.png" alt="Bar Chart" /></td>
</tr>
<tr>
<td>Sustainability strategy with quantified objectives for each material issue</td>
<td><img src="chart3.png" alt="Bar Chart" /></td>
<td><img src="chart4.png" alt="Bar Chart" /></td>
</tr>
<tr>
<td>Detailed organization, i.e. structure, names or reporting lines</td>
<td><img src="chart5.png" alt="Bar Chart" /></td>
<td><img src="chart6.png" alt="Bar Chart" /></td>
</tr>
</tbody>
</table>

**Meaningful KPIs and reporting processes**

- **Very Important**: 41.4% (Investor Relations), 51.8% (Institutional Investor)
- **Medium Importance**: 30.5% (Investor Relations), 23.2% (Institutional Investor)
- **Somewhat Important**: 17.2% (Investor Relations), 17.9% (Institutional Investor)
- **I do not know**: 10.9% (Investor Relations), 7.1% (Institutional Investor)

**Sustainability strategy with quantified objectives for each material issue**

- **Very Important**: 30.5% (Investor Relations), 50.0% (Institutional Investor)
- **Medium Importance**: 28.9% (Investor Relations), 23.2% (Institutional Investor)
- **Somewhat Important**: 29.7% (Investor Relations), 21.4% (Institutional Investor)
- **I do not know**: 10.9% (Investor Relations), 5.4% (Institutional Investor)

**Detailed organization, i.e. structure, names or reporting lines**

- **Very Important**: 13.3% (Investor Relations), 28.6% (Institutional Investor)
- **Medium Importance**: 39.8% (Investor Relations), 42.9% (Institutional Investor)
- **Somewhat Important**: 33.6% (Investor Relations), 23.2% (Institutional Investor)
- **I do not know**: 13.3% (Investor Relations), 5.3% (Institutional Investor)

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Whereas IROs believe that ESG is of minor importance to IIs …

What is the percentage of investors emphasizing ESG?

62.5% of investors believe that ESG is a priority, 26.6% prioritize it between 10% and 50%, 3.1% prioritize it above 50%, and 7.8% do not know.
… the weighting reported by IIs is clearly higher

What is the portion of assets managed under ESG criteria on group level?

- ≈55%
- ≈26%
- ≈19%

Answers in %
From IROs perspective sustainability is more important for communication with management than with investors.

How important is ESG...

...in your dialogue with investors?  
- High: 52%  
- Medium: 39.1%  
- Low: 46.1%  
- I do not know: 2.3%

...for your company's top management?  
- High: 63%  
- Medium: 42.2%  
- Low: 34.4%  
- I do not know: 3.1%

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Evaluation of ESG research agencies
## Profiles of ESG rating agencies (1/2)

<table>
<thead>
<tr>
<th>Agency</th>
<th>Profile</th>
<th>Coverage</th>
<th>Analysis based on</th>
<th>Services</th>
</tr>
</thead>
</table>
| **CDP (non-profit)**  
Founded 2000 (London)  
> 200  | ~ 7,000 companies  
~ 620 cities  
~ 120 states/regions | • Self-disclosure questionnaire  
• Evaluation of criteria across three focus areas, distinguishing between companies and suppliers | • ESG ratings and research  
• support via workshops and webinars  
• 160 companies A-listed in 2017 |
| **Covalence SA**  
Founded 2001 (Geneva)  
> 5 employees | ~ 3,400 companies | • Publicly available information (web monitoring, artificial intelligence and human analysis)  
• Evaluation of criteria across 8 areas | • ESG ratings and research |
| **FTSE Russell (FTSE International Limited)**  
Founded as FT-Actuaries All-Share Index in 1962 (London)  
> 100 employees | ~ 4,100 companies | • Publicly available information  
• Evaluation of on average 125 indicators individually selected for the company's circumstances | • ESG ratings  
• Green Revenues data evaluation  
• ESG Indexes (e.g. FTSE Good) |
| **ISS-oekom/ oekom research AG**  
Founded 1993 as oekom Research (Munich)  
> 120 employees | ~ 6,300 companies  
~ 726 states & regional authorities | • Publicly available information  
• Interviews with company rep.’s and further stakeholders  
• Evaluation of 100 sector specific social and ecological criteria across six areas  
• Exclusion screening of controversies | • ESG ratings and research  
• 550 rated oekom Prime in 2017 |

Source: Agencies, S&C
# Profiles of ESG rating agencies (2/2)

<table>
<thead>
<tr>
<th>Agency</th>
<th>Profile</th>
<th>Coverage</th>
<th>Analysis based on</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MSCI Inc.</strong></td>
<td><strong>MSCI ESG Ratings</strong> Founded in 2010 as ex-Innovest/KLD (New York)</td>
<td>~ 13,000 equity and fixed income issuers ~ 7,500 companies</td>
<td>• Publicly available information plus formal data verification by company prior to publication of ratings • Evaluation of 37 key issues across ten areas</td>
<td>• ESG ratings and research (company, industry and thematic reports, portfolio analytics, data feeds, indexes) • ESG Indexes</td>
</tr>
<tr>
<td><strong>RobecoSAM AG</strong></td>
<td>Founded 1995 as SAM (Zurich)</td>
<td>~ 4,500 companies ~ 60 countries</td>
<td>• Self-disclosure questionnaire (CSA assessment) • Evaluation of 19 key issues across three areas</td>
<td>• ESG ratings</td>
</tr>
<tr>
<td><strong>Sustainalytics (Sustainalytics Holding B.V.)</strong></td>
<td>Founded 1992 as Jantzi Research (Amsterdam)</td>
<td>~ 9,000 companies</td>
<td>• Publicly available information (company-issued information, media analysis) • Evaluation of 40 industry-specific indicators</td>
<td>• ESG ratings and research</td>
</tr>
<tr>
<td><strong>Vigeo Eiris (Vigeo SAS)</strong></td>
<td>Merger between vigeo and EIRIS</td>
<td>~ 4,000 issuers</td>
<td>• Self-disclosure questionnaires • Evaluation of 38 criteria across six areas</td>
<td>• ESG ratings and research • strategic support</td>
</tr>
</tbody>
</table>

Source: Agencies, S&C
MSCI and ISS-oekom are the most favored ESG rating agencies by IROs and IIs

Which are the rating agencies you buy ESG research from?* (II)
Which ESG rating requests do you answer?* (IRO)

Institutional Investors buying reports  Investor Relations answering/commenting evaluations

Multiple answers possible
Evaluation of ESG research firm’s quality (IRO’s perspective)

Score

Maximum score per category is 10 points (max. 60 points in total)

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Evaluation of ESG research firm’s quality (II’s perspective)

Maximum score per category is 10 points (max. 60 points in total)
## Evaluation of ESG rating agencies
### IRO’s perspective

<table>
<thead>
<tr>
<th>Category</th>
<th>ROECOSAM</th>
<th>ISS-oekom</th>
<th>CDP</th>
<th>MSCI</th>
<th>SUSTAINALYTICS</th>
<th>Vigeo eiris</th>
<th>FTSE</th>
<th>Covalence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>7,6</td>
<td>7,2</td>
<td>7,1</td>
<td>7,1</td>
<td>6,6</td>
<td>6,7</td>
<td>7,0</td>
<td>5,5</td>
</tr>
<tr>
<td>Added Value</td>
<td>7,4</td>
<td>7,1</td>
<td>7,1</td>
<td>7,2</td>
<td>6,7</td>
<td>6,6</td>
<td>6,5</td>
<td>4,5</td>
</tr>
<tr>
<td>Coverage</td>
<td>7,4</td>
<td>7,3</td>
<td>7,1</td>
<td>7,4</td>
<td>7,1</td>
<td>6,9</td>
<td>7,1</td>
<td>4,0</td>
</tr>
<tr>
<td>Presentation</td>
<td>7,4</td>
<td>7,2</td>
<td>6,7</td>
<td>7,1</td>
<td>6,5</td>
<td>6,4</td>
<td>5,9</td>
<td>4,3</td>
</tr>
<tr>
<td>Interaction</td>
<td>7,0</td>
<td>7,3</td>
<td>7,0</td>
<td>6,2</td>
<td>6,3</td>
<td>6,3</td>
<td>5,6</td>
<td>4,0</td>
</tr>
<tr>
<td>Innovation</td>
<td>7,6</td>
<td>6,6</td>
<td>7,1</td>
<td>6,3</td>
<td>6,1</td>
<td>6,4</td>
<td>6,2</td>
<td>5,5</td>
</tr>
<tr>
<td>Overall result</td>
<td>44,4</td>
<td>42,7</td>
<td>42,1</td>
<td>41,3</td>
<td>39,3</td>
<td>39,3</td>
<td>38,3</td>
<td>27,8</td>
</tr>
</tbody>
</table>

= Best in class

Maximum score per category is 10 points (max. 60 points in total)

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# Evaluation of ESG rating agencies
## Institutional investors’ perspective

<table>
<thead>
<tr>
<th>Category</th>
<th>MSCI</th>
<th>ISS-oekom</th>
<th>Sustainalytics</th>
<th>RobecoSAM</th>
<th>CDP</th>
<th>FSE Russell</th>
<th>Vigeqiris</th>
<th>Covalence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>7,7</td>
<td>7,8</td>
<td>6,9</td>
<td>7,0</td>
<td>6,4</td>
<td>6,7</td>
<td>6,8</td>
<td>5,0</td>
</tr>
<tr>
<td>Added Value</td>
<td>8,0</td>
<td>7,7</td>
<td>7,0</td>
<td>6,8</td>
<td>5,8</td>
<td>5,4</td>
<td>6,0</td>
<td>4,8</td>
</tr>
<tr>
<td>Coverage</td>
<td>7,9</td>
<td>7,9</td>
<td>7,2</td>
<td>6,8</td>
<td>6,9</td>
<td>6,0</td>
<td>6,4</td>
<td>5,5</td>
</tr>
<tr>
<td>Presentation</td>
<td>7,7</td>
<td>7,3</td>
<td>7,0</td>
<td>6,7</td>
<td>6,2</td>
<td>6,6</td>
<td>6,3</td>
<td>5,0</td>
</tr>
<tr>
<td>Innovation</td>
<td>7,7</td>
<td>7,5</td>
<td>6,7</td>
<td>6,5</td>
<td>5,8</td>
<td>6,0</td>
<td>5,0</td>
<td>5,0</td>
</tr>
<tr>
<td>Overall result</td>
<td>39,0</td>
<td>38,2</td>
<td>34,8</td>
<td>33,8</td>
<td>31,1</td>
<td>30,7</td>
<td>30,5</td>
<td>25,3</td>
</tr>
</tbody>
</table>

- Material = Best in class

Maximum score per category is 10 points (max. 50 points in total)
The familiarity of both, IROs and IIs with ESG rating agencies’ approach appears to be rather low.

<table>
<thead>
<tr>
<th>Investor Relations (104 Votes)</th>
<th>CDP</th>
<th>RobecoSAM</th>
<th>Vigeo Eiris</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>Somewhat</td>
<td>Not at all</td>
</tr>
<tr>
<td><strong>Yes</strong></td>
<td>30,8%</td>
<td>29,8%</td>
<td>7,7%</td>
</tr>
<tr>
<td><strong>Somewhat</strong></td>
<td>27,9%</td>
<td>15,4%</td>
<td>2,9%</td>
</tr>
<tr>
<td><strong>Not at all</strong></td>
<td>4,2%</td>
<td>14,9%</td>
<td>4,2%</td>
</tr>
<tr>
<td><strong>I do not know</strong></td>
<td>4,2%</td>
<td>12,8%</td>
<td>6,4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Institutional Investor (47 Votes)</th>
<th>CDP</th>
<th>RobecoSAM</th>
<th>Vigeo Eiris</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>Somewhat</td>
<td>Not at all</td>
</tr>
<tr>
<td><strong>Yes</strong></td>
<td>8,5%</td>
<td>13%</td>
<td>4,2%</td>
</tr>
<tr>
<td><strong>Somewhat</strong></td>
<td>4,3%</td>
<td>12,8%</td>
<td>6,4%</td>
</tr>
<tr>
<td><strong>Not at all</strong></td>
<td>4,2%</td>
<td>14,9%</td>
<td>4,2%</td>
</tr>
<tr>
<td><strong>I do not know</strong></td>
<td>4,2%</td>
<td>12,8%</td>
<td>6,4%</td>
</tr>
</tbody>
</table>

Is the overall scope and relevance of selected topics sufficiently addressed through questionnaires?
Missing data and management decision are mostly named as reasons for not supplying ESG information

What are the most frequent reasons for companies to withhold ESG information?*

<table>
<thead>
<tr>
<th>Reason</th>
<th>Investor Relations</th>
<th>Institutional Investor</th>
<th>ESG Research Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic decision by top management</td>
<td>23,2%</td>
<td>19,5%</td>
<td>16,7%</td>
</tr>
<tr>
<td>Lack of interest, poorly prepared</td>
<td>29,3%</td>
<td>16,7%</td>
<td>16,7%</td>
</tr>
<tr>
<td>Requested information not available, missing KPIs &amp; reporting structure</td>
<td>49,5%</td>
<td>33,3%</td>
<td>41,7%</td>
</tr>
<tr>
<td>Not the case</td>
<td>25,3%</td>
<td>8,3%</td>
<td>9,5%</td>
</tr>
<tr>
<td>Other</td>
<td>9,5%</td>
<td>9,5%</td>
<td>8,3%</td>
</tr>
<tr>
<td>I do not know</td>
<td>5,3%</td>
<td>5,3%</td>
<td>2,4%</td>
</tr>
</tbody>
</table>

*Multiple answers possible
High percentage of insufficient ESG knowledge or lack of mandate to discuss ESG

What is the portion of IR-professionals...

...who have been sufficiently trained and/or informed about sustainability and about the performance of their company?

...having a clear mandate from management to provide a transparent report on their company’s sustainability performance?

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The preferred channels for communication are print / online-report and in-person discussion.

Preferred channel for communication with investors/companies.

- Printed/electronic (CSR report, website, ESG research): 53.8% (45 votes)
- In-person discussion (annual general meeting, stakeholder roundtable): 59.8% (41 votes)
- Telephone: 11.9% (12 votes)
- Other: 11.9% (12 votes)

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ESG rating agencies are only to a small degree prepared to negotiate from the IRO perspective (1/2)

Is the rating agency willing to discuss and amend its verdict?

Questionnaires (104 Votes)

**CDP**
- Yes: 12.5%
- Somewhat: 22.1%
- Not at all: 15.4%
- Do not know: 50%

**RobecoSAM**
- Yes: 6.8%
- Somewhat: 17.3%
- Not at all: 11.5%
- Do not know: 64.4%

**Vigeo Eiris**
- Yes: 8.6%
- Somewhat: 12.5%
- Not at all: 8.6%
- Do not know: 70.2%
ESG rating agencies are only to a small degree prepared to negotiate from the IRO perspective (2/2)

Is the rating agency willing to discuss and amend its verdict?
Publicly available information (95 Votes)

<table>
<thead>
<tr>
<th>ESG Rating Agency</th>
<th>Yes</th>
<th>Somewhat</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covalence</td>
<td>1%</td>
<td>4,2%</td>
<td>3,2%</td>
</tr>
<tr>
<td>FTSE Russell</td>
<td>11,6%</td>
<td>9,5%</td>
<td>5,3%</td>
</tr>
<tr>
<td>ISS-oekom</td>
<td>30,5%</td>
<td>22,1%</td>
<td>7,4%</td>
</tr>
<tr>
<td>MSCI</td>
<td>20%</td>
<td>21%</td>
<td>9,5%</td>
</tr>
<tr>
<td>Sustainalytics</td>
<td>23,2%</td>
<td>2,3%</td>
<td>7,4%</td>
</tr>
</tbody>
</table>

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Thank you for your attention!