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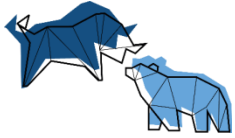
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ESG ratings in Germany

Survey among investor relations & institutional investors

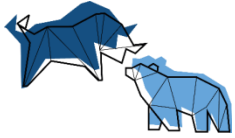
Leverkusen, 08. März 2019

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Introductory observations

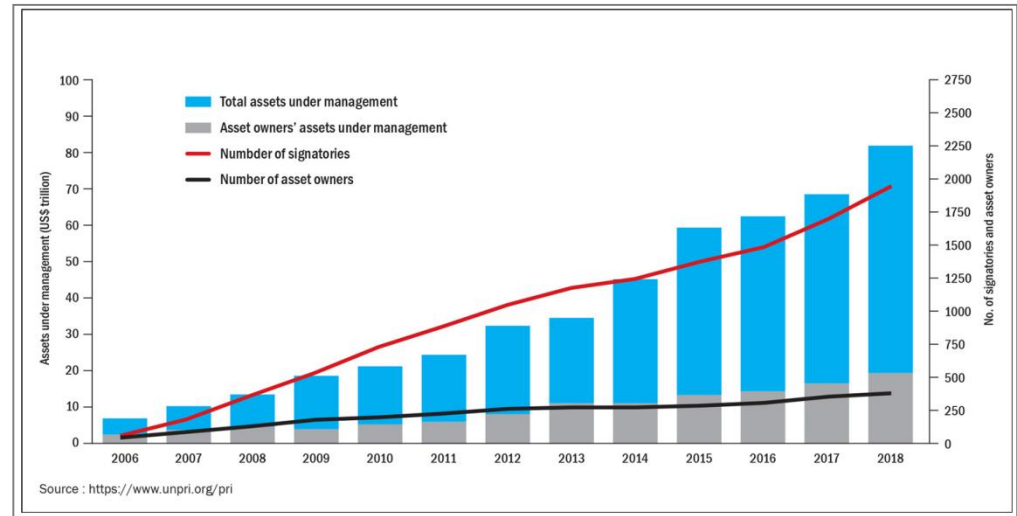
- HBS' study of 2015 “First Evidence on Materiality”: A turning point in how investors viewed ESG; firms with good sustainability performance significantly outperform those with poor performance, i.e. shareholder value enhancing”
- Larry Fink: BlackRock intends to become “a leader in sustainable investing”; “Sustainable Investing” will be a core component for how everyone invests; we are only at the early stages”; “Society demands that companies serve a social purpose”
- Investors seek better non-financial reporting; founding of EPIC (Embankment Project for Inclusive Capitalism) with the objective to push companies to disclose “hard-to-quantify” items and their effect on society and the environment

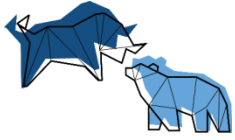


The broader ESG Universe

- Approx. 43,000 listed companies worldwide²
- 47 larger stock exchanges³
- **One-third** or **\$20 trillion** of all professionally-run assets globally use ESG data⁴
- Most rely on ESG rating agencies; more than 150 providers of ESG research, ratings, rankings, indices follow more than 50,000 companies⁵

Growth of responsible investments among UNPRI signatories¹

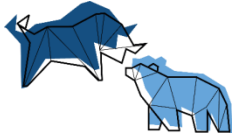





DIRK survey on ESG ratings in Germany – background and approach



- 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 IIs and 8 ESG rating agencies.




ESG rating agencies covered



Employees	Coverage ⁸
> 200	~ 7,000 companies ~ 620 cities ~ 120 states/ regions



Employees ⁹	Coverage ⁵
> 5	~ 3,400 companies




Employees	Coverage ¹⁰
> 100	~ 4,100 companies



Employees	Coverage
> 120	~ 6,300 companies ~ 726 states & regional authorities



Employees ¹⁵	Coverage ¹¹
MSCI Inc. > 3,038 MSCI ESG Ratings > 300	~ 13,000 equity and fixed income issuers ~ 7,500 companies



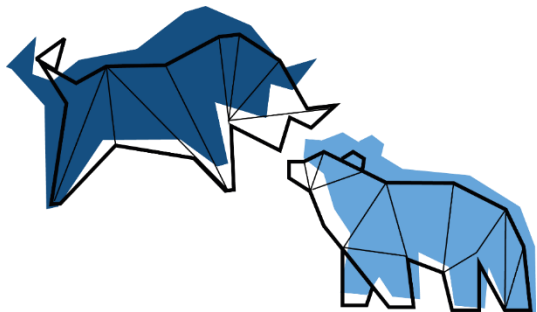
Employees	Coverage ¹²
> 110	~ 4,500 companies ~ 60 countries



Employees	Coverage ¹³
> 300	~ 9,000 companies



Employees ¹⁴	Coverage ¹⁴
> 140	~ 4,000 issuers



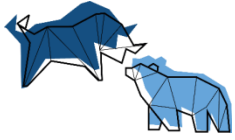
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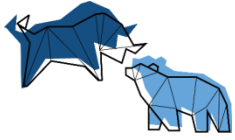
Executive summary

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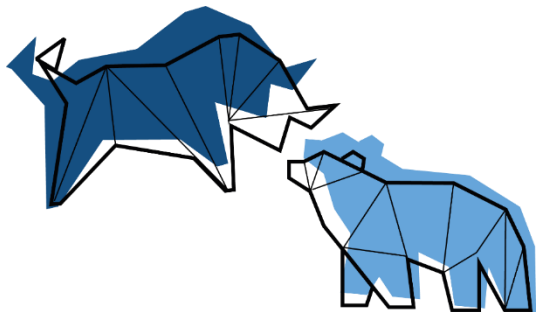
Key findings (1/2)

- 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.



Key findings (2/2)

- 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.



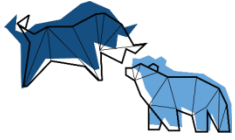
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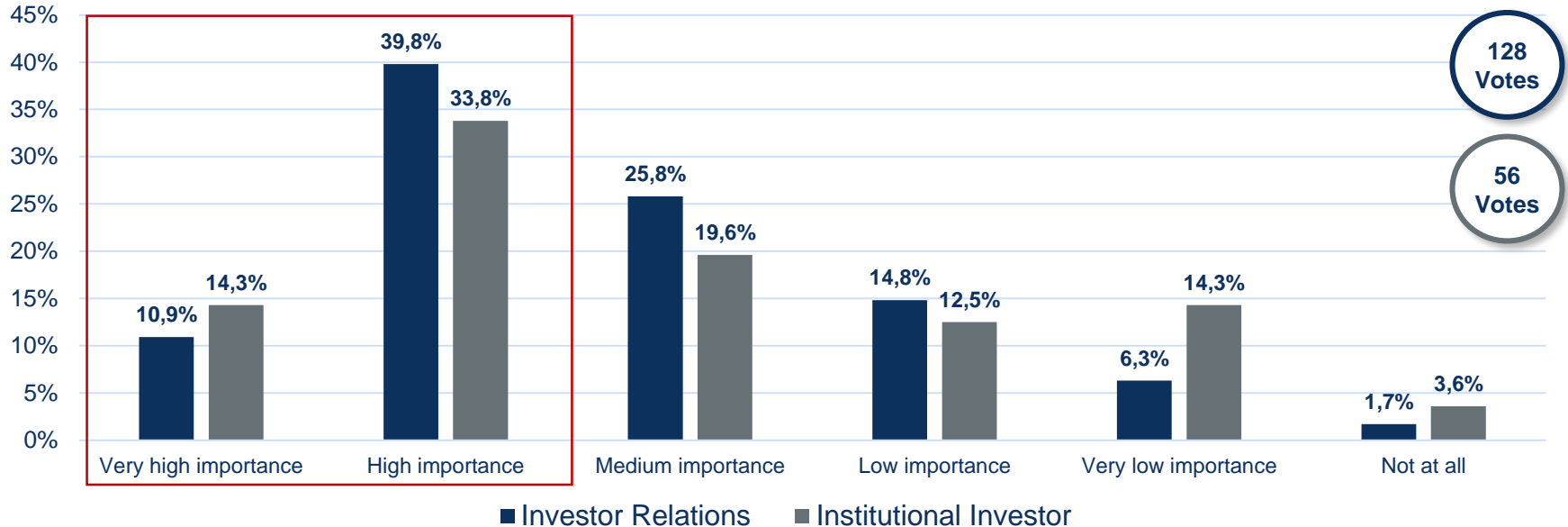
The overall importance of sustainability

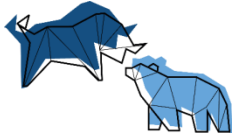
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Most respondents consider sustainability of high importance with regard to companies' performance

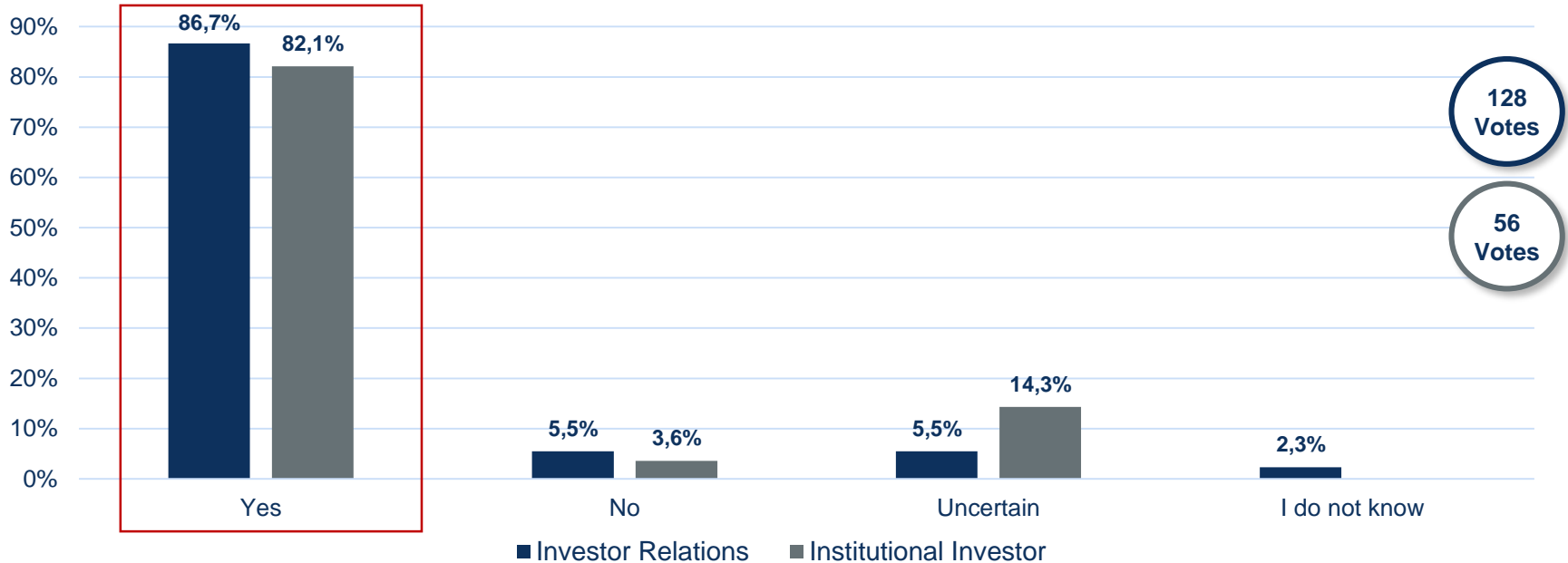
How important is sustainability with regard to a company's performance in general?

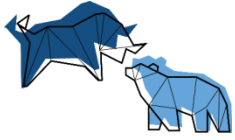




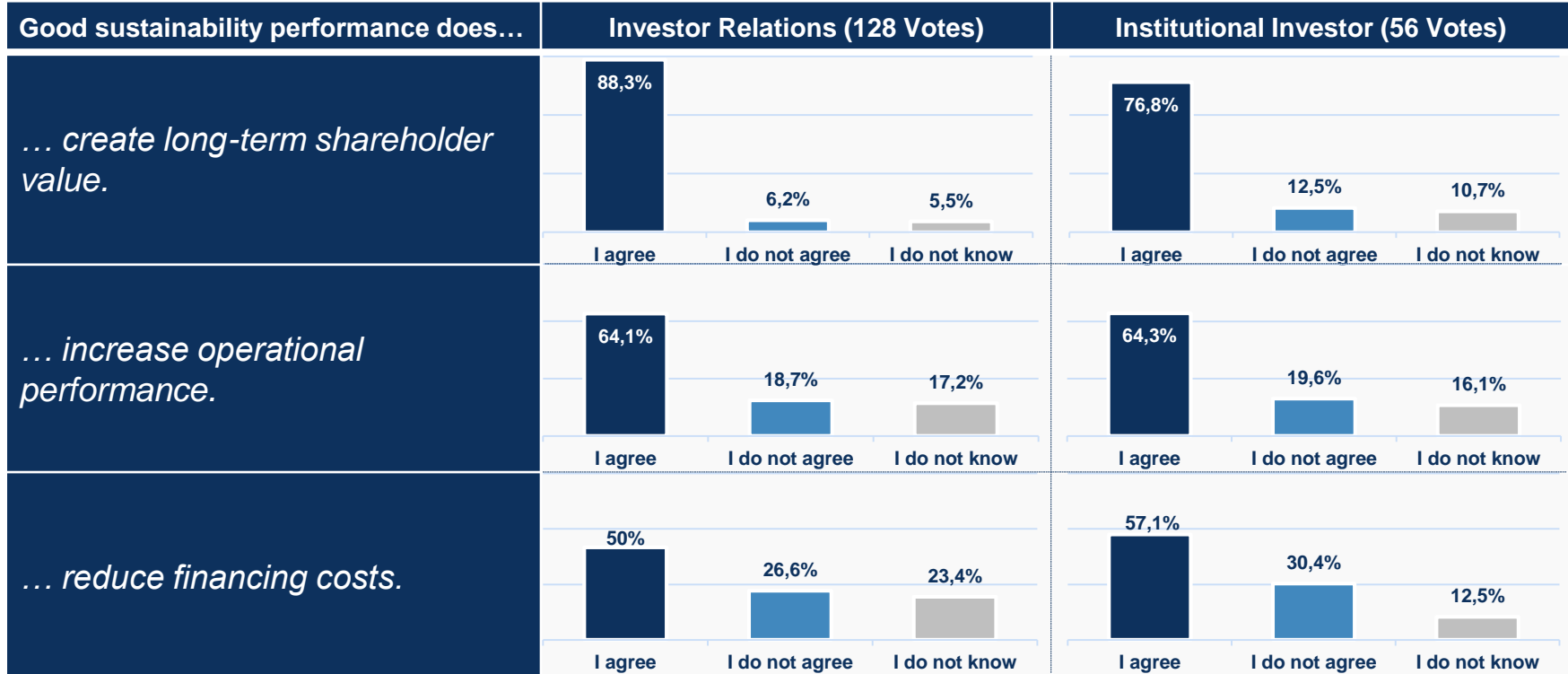
Sustainability will continue to gain in importance in the future

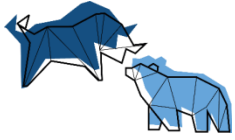
Will good sustainability performance gain in importance in the future?



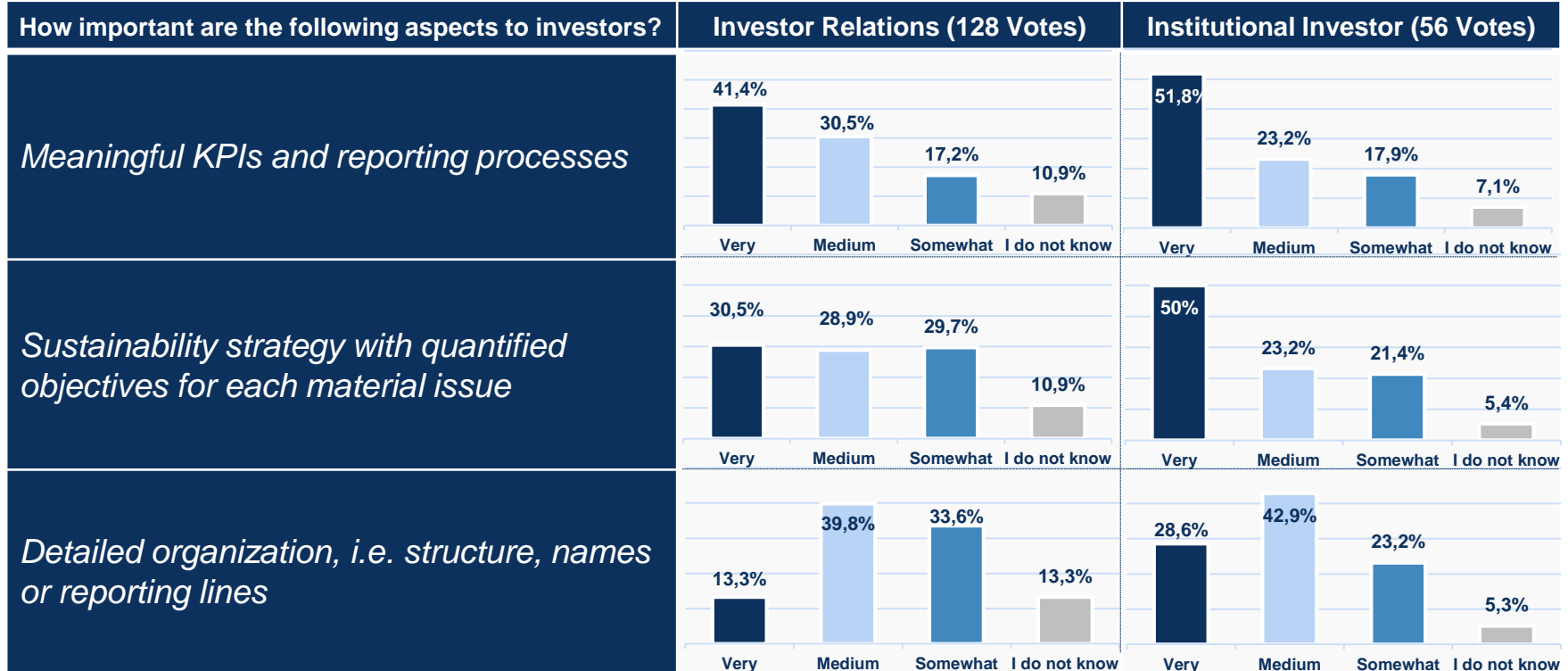


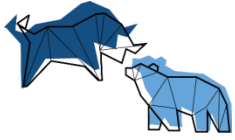
The majority of respondents believes that sustainability produces tangible value





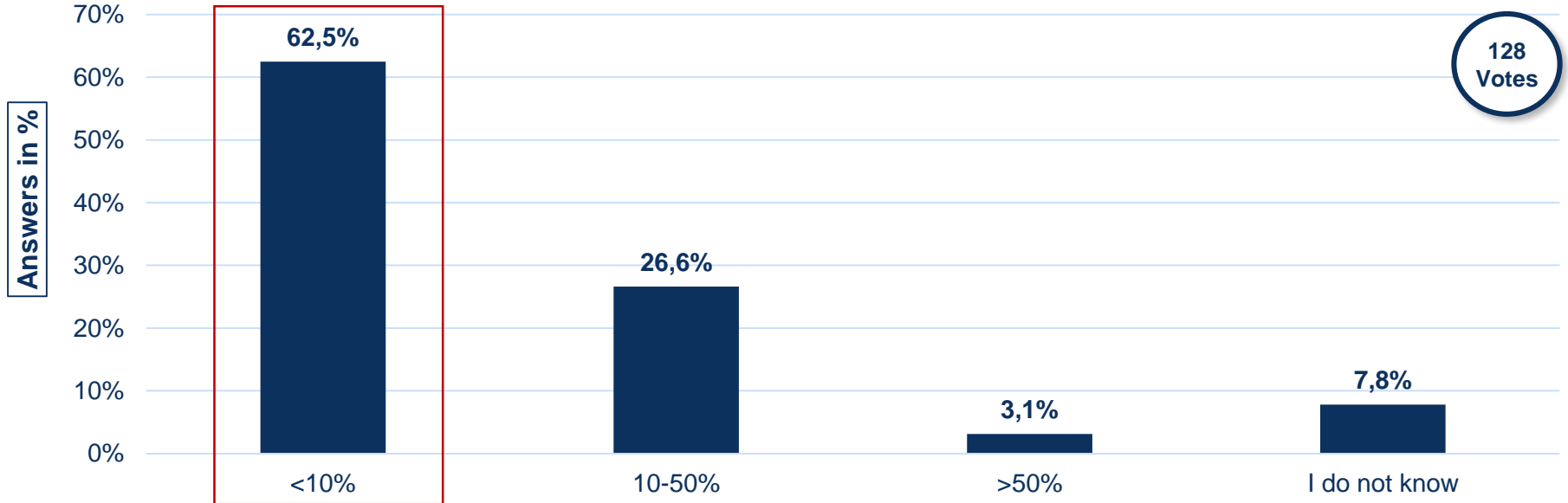
KPIs, strategy and objectives are critical for evaluating a company's sustainability performance

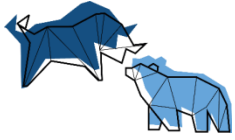




Whereas IROs believe that ESG is of minor importance to IIs ...

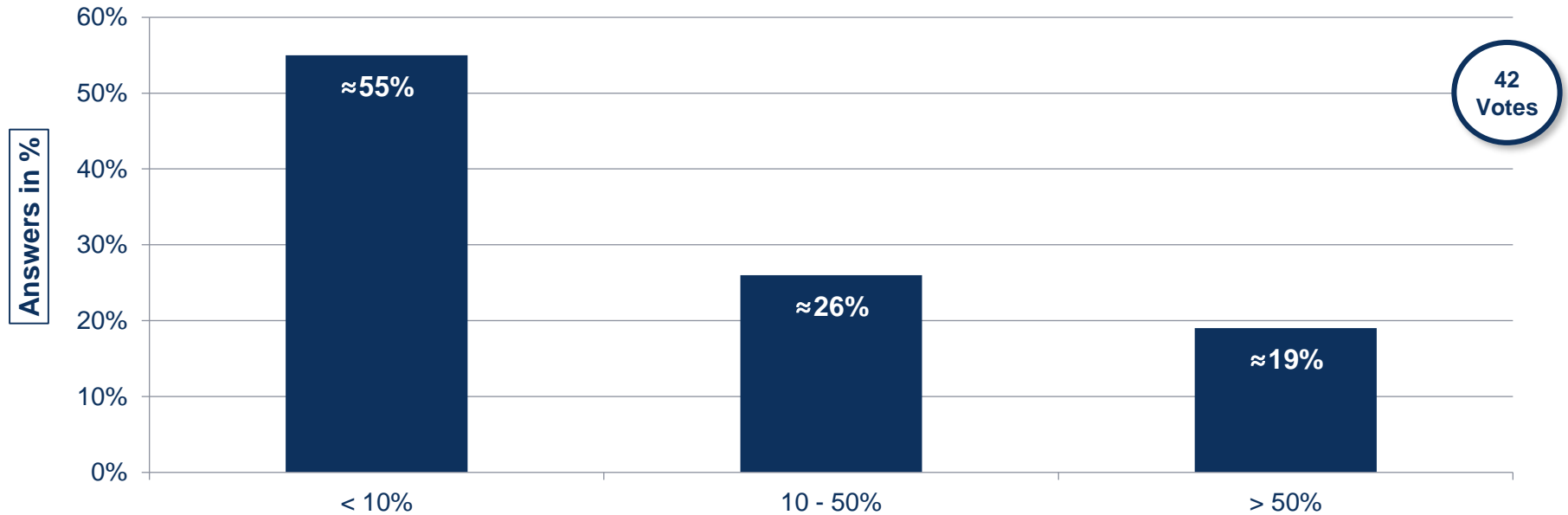
What is the percentage of investors emphasizing ESG?

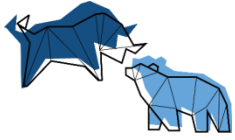




... the weighting reported by IIs is clearly higher

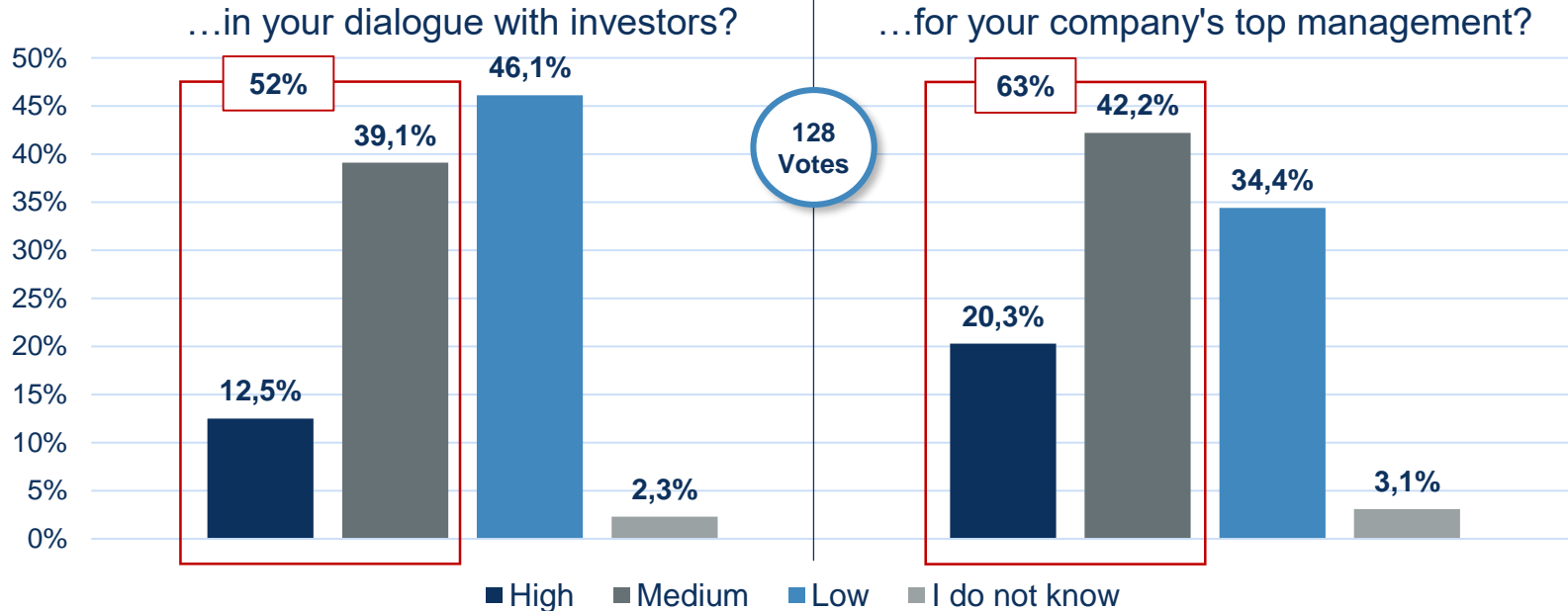
What is the portion of assets managed under ESG criteria on group level?

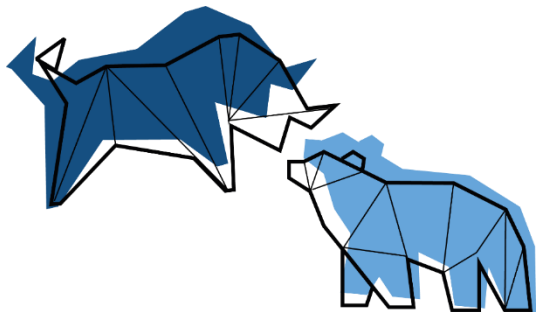




From IROs perspective sustainability is more important for communication with management than with investors

How important is ESG...





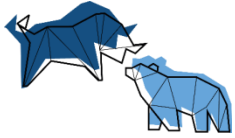
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Evaluation of ESG rating agencies

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ESG rating agencies covered



covalence

FTSE
Russell

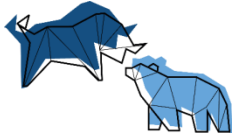
ISS-ekom 

MSCI 

ROBECOSAM 
We are Sustainability Investing.

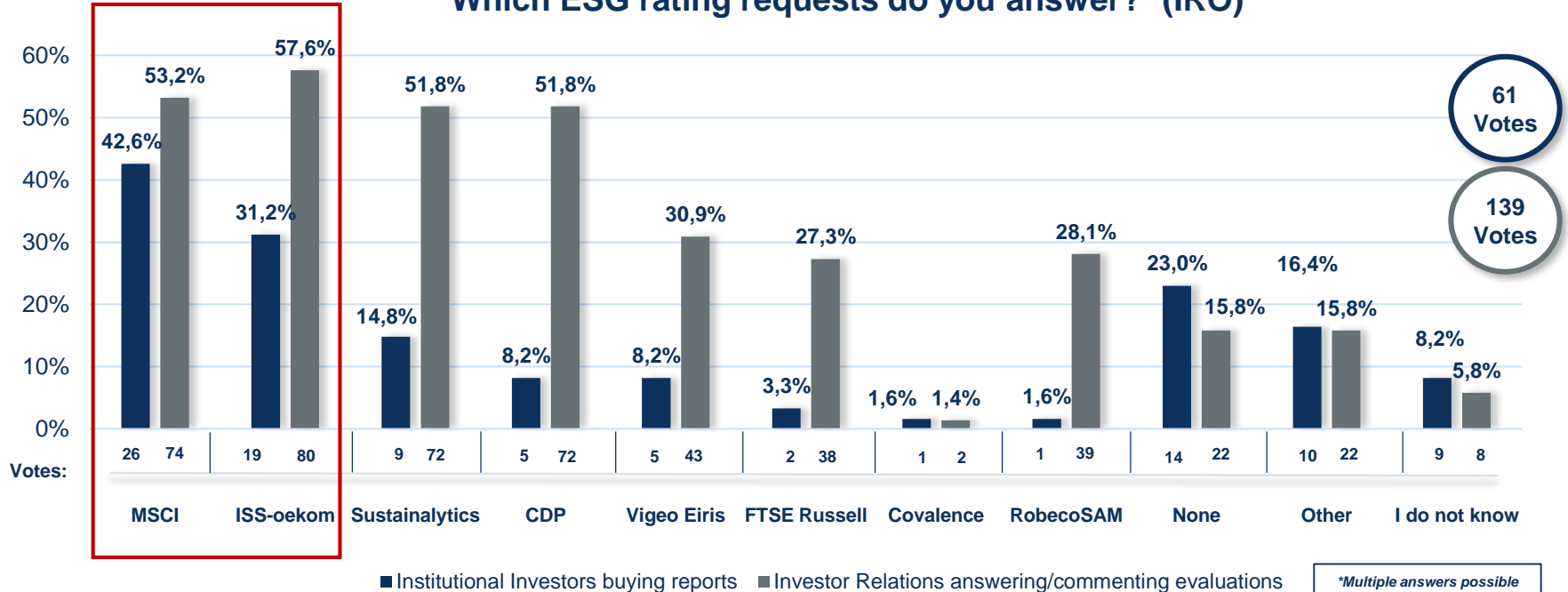
 SUSTAINALYTICS

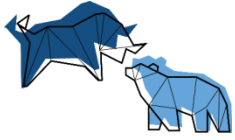
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eiris



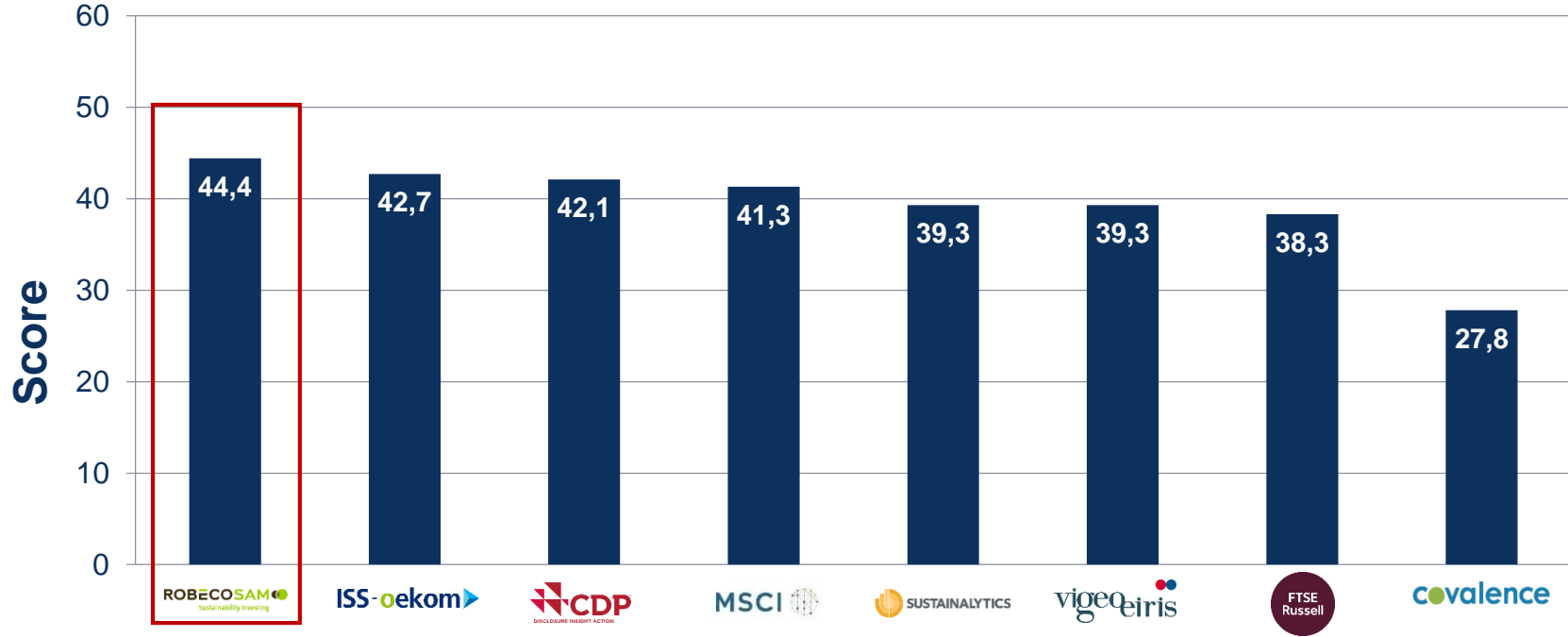
MSCI and ISS-oekom are the most favored ESG rating agencies by IROs and IIs

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

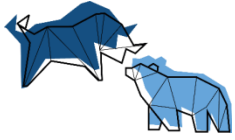




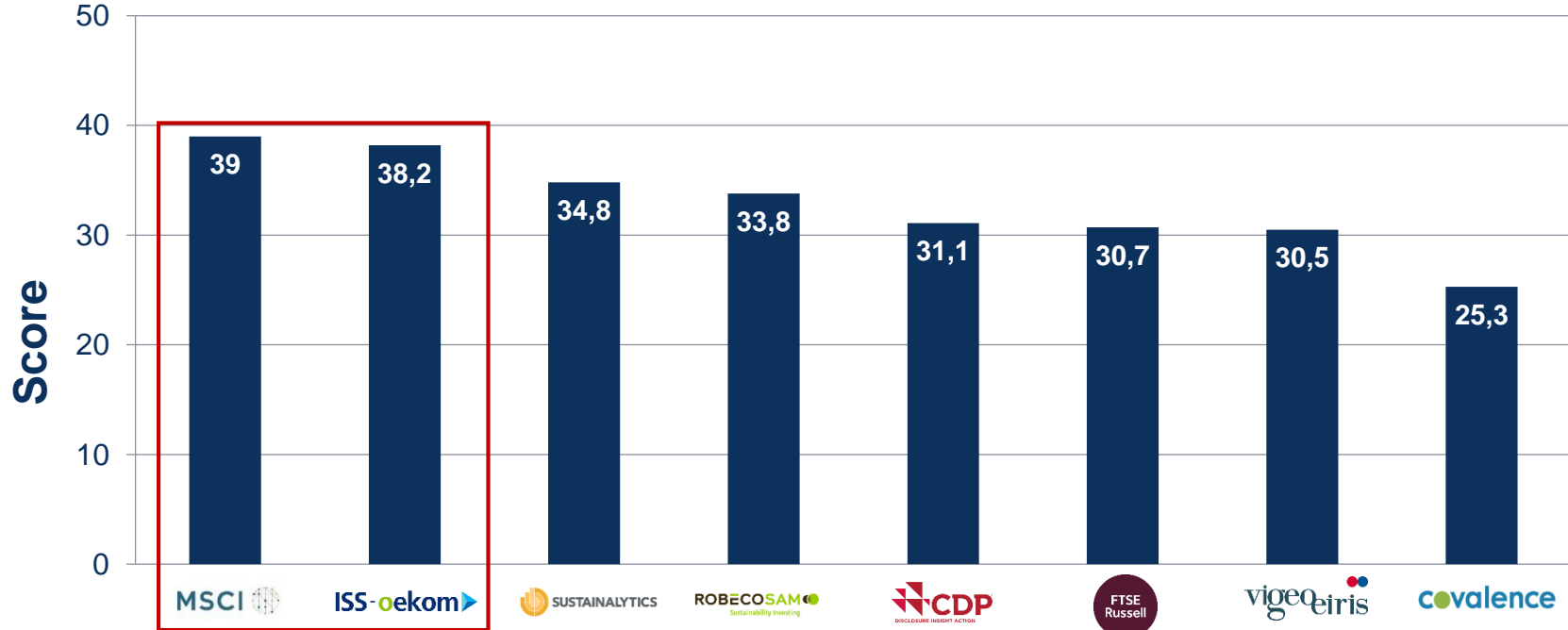
Evaluation of ESG rating firm's quality (IRO's perspective)



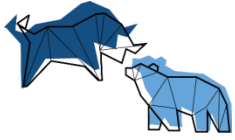
Maximum score per category is 10 points (max. 60 points in total)



Evaluation of ESG rating firm's quality (II's perspective)



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



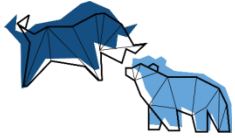
Evaluation of ESG rating agencies

IRO's perspective

ESG Firm	ROBECOSAM Sustainability Investing	ISS oekom	CDP DISCLOSE HIGHLIGHT ACTION	MSCI	SUSTAINALYTICS	vigeo eiris	FTSE Russell	covalence
Quality	7,6	7,2	7,1	7,1	6,6	6,7	7,0	5,5
Added Value	7,4	7,1	7,1	7,2	6,7	6,6	6,5	4,5
Coverage	7,4	7,3	7,1	7,4	7,1	6,9	7,1	4,0
Presentation	7,4	7,2	6,7	7,1	6,5	6,4	5,9	4,3
Interaction	7,0	7,3	7,0	6,2	6,3	6,3	5,6	4,0
Innovation	7,6	6,6	7,1	6,3	6,1	6,4	6,2	5,5
Overall result	44,4	42,7	42,1	41,3	39,3	39,3	38,3	27,8

 = Best in class

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



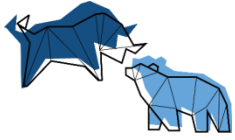
Evaluation of ESG rating agencies

Institutional investors' perspective

Category \ ESG Firm	MSCI	ISS-ekom	SUSTAINALYTICS	ROBECOSAM Sustainability Investing	CDP DISCLOSE HIGHLIGHT ACTION	FTSE Russell	vigeo eiris	covalence
Quality	7,7	7,8	6,9	7,0	6,4	6,7	6,8	5,0
Added Value	8,0	7,7	7,0	6,8	5,8	5,4	6,0	4,8
Coverage	7,9	7,9	7,2	6,8	6,9	6,0	6,4	5,5
Presentation	7,7	7,3	7,0	6,7	6,2	6,6	6,3	5,0
Innovation	7,7	7,5	6,7	6,5	5,8	6,0	5,0	5,0
Overall result	39,0	38,2	34,8	33,8	31,1	30,7	30,5	25,3

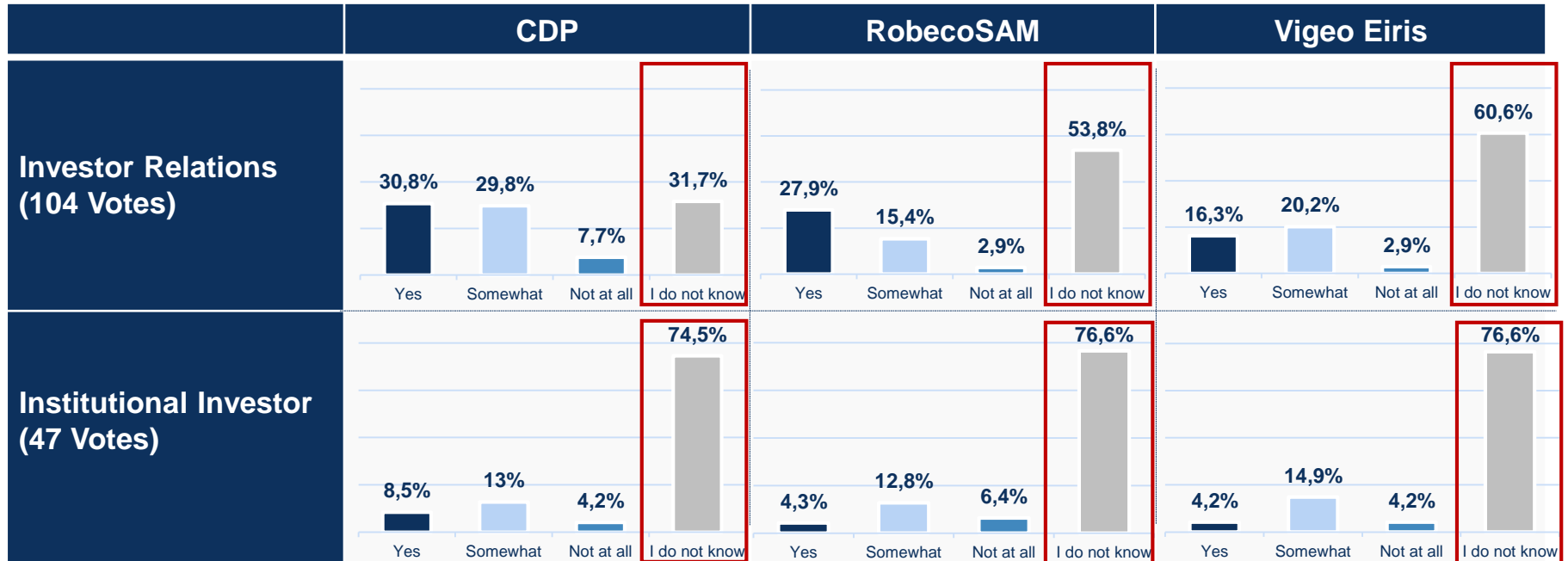
 = Best in class

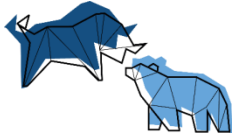
Maximum score per category is 10 points (max. 50 points in total)



The familiarity of both, IROs and IIs with ESG rating agencies' approach appears to be rather low

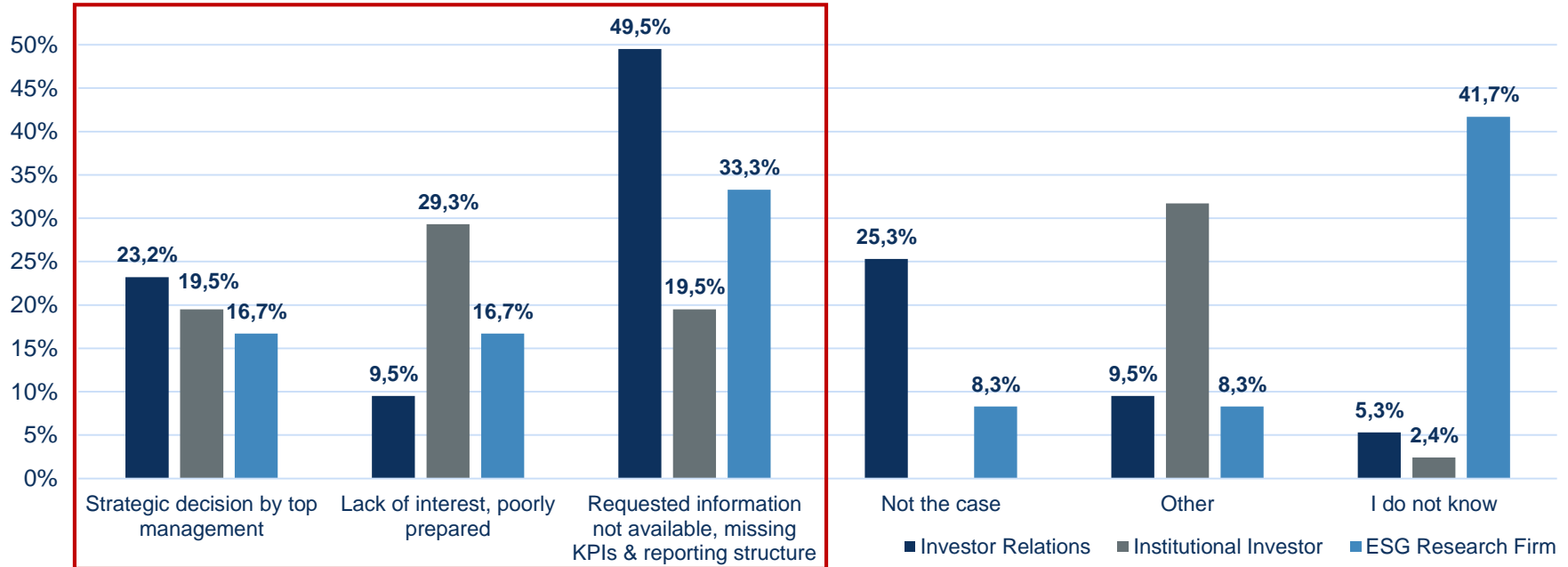
Is the overall scope and relevance of selected topics sufficiently addressed through questionnaires?

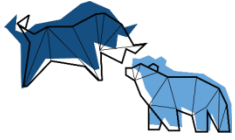




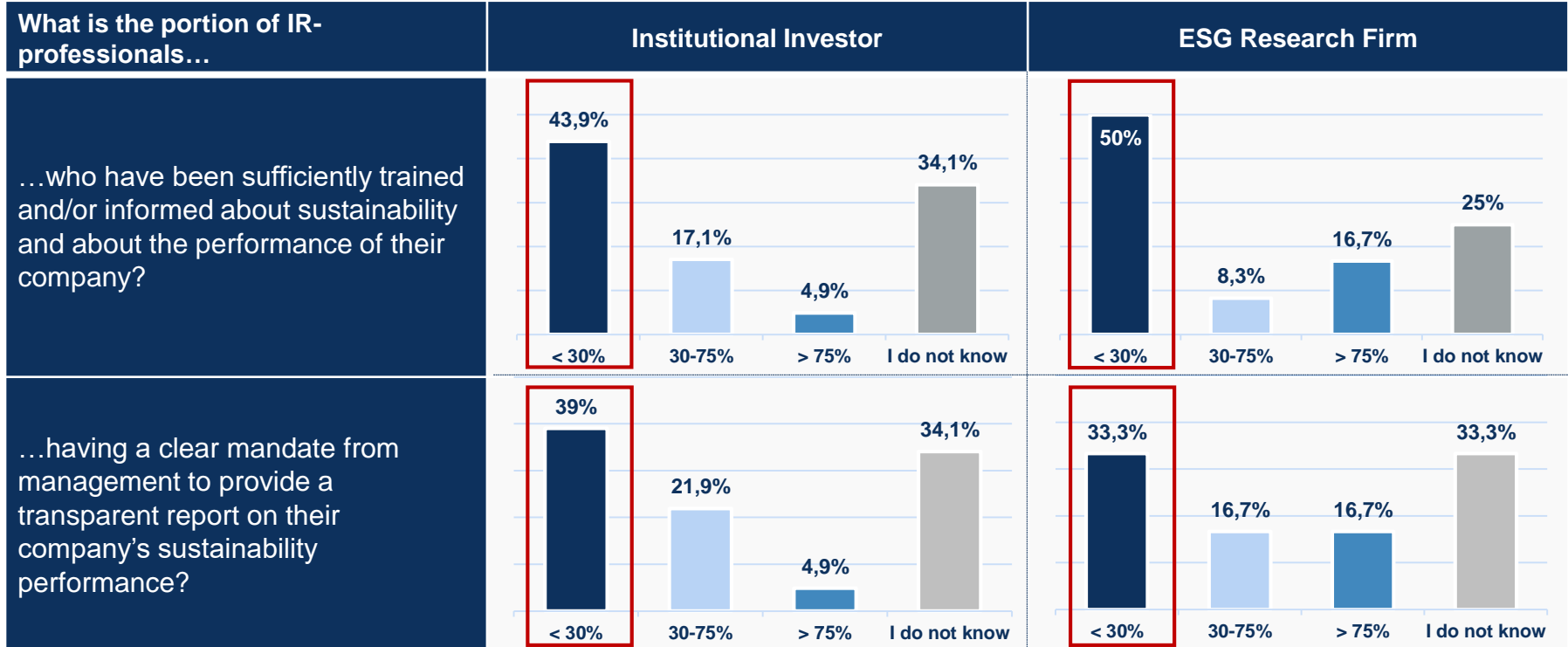
Missing data and management decision are mostly named as reasons for not supplying ESG information

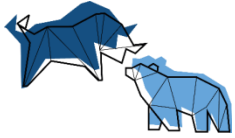
What are the most frequent reasons for companies to withhold ESG information?*





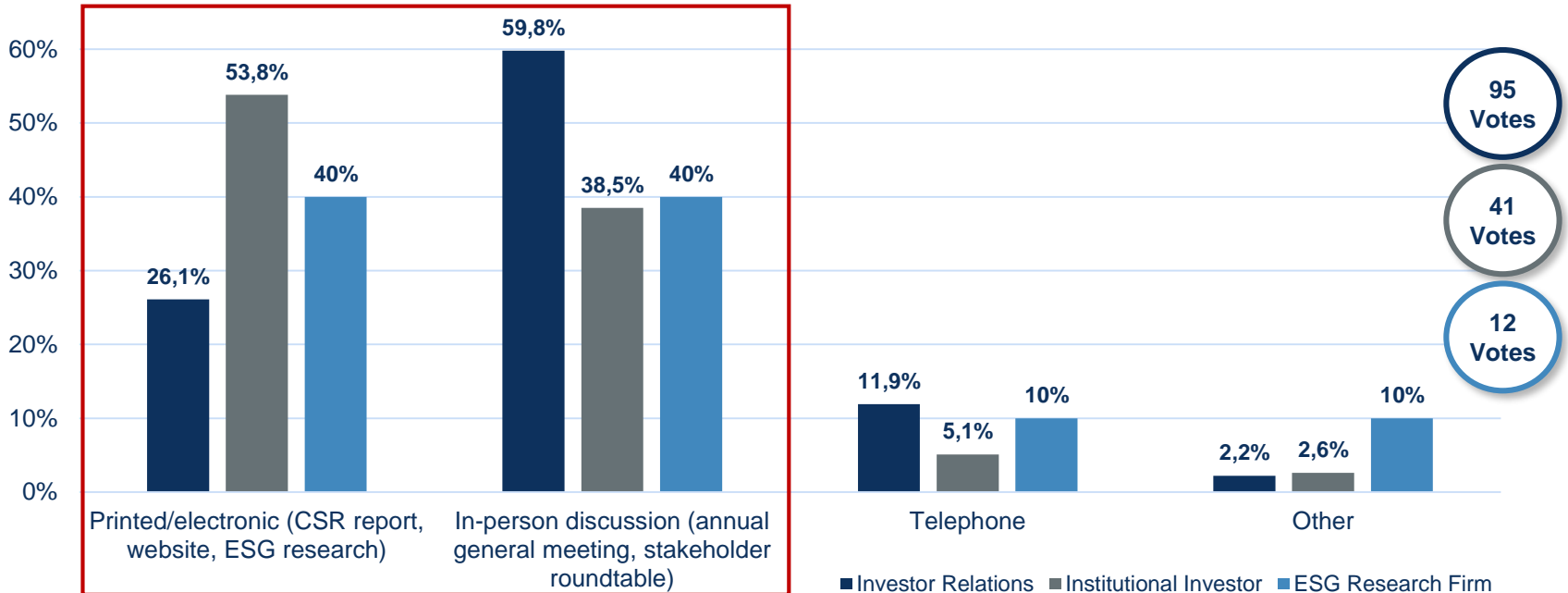
High percentage of insufficient ESG knowledge or lack of mandate to discuss ESG

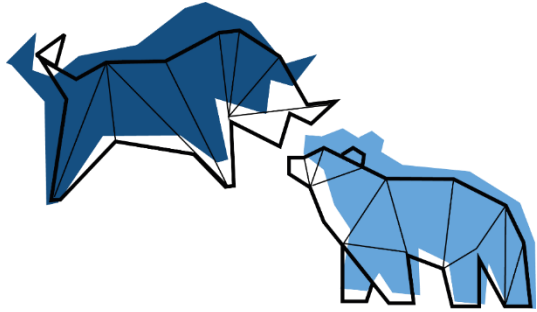




The preferred channels for communication are print / online-report and in-person discussion

Preferred channel for communication with investors/companies.





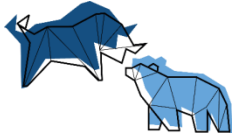
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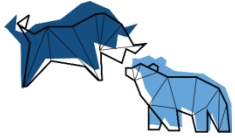
Conclusion

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Conclusion

- 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.



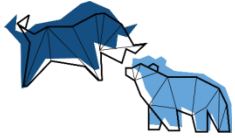
Actionable recommendations⁶ (1/3)



Timothy M. Doyle
Vice President of Policy & General Counsel



- Washington, DC based nonprofit, nonpartisan organization as a liaison between Washington's leading policymakers, the press, and representatives of the business community
- Leadership and influence in U.S. economic policy
- Research and analysis with impact on legislative and regulatory initiatives



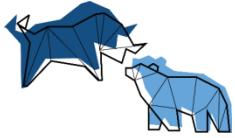
Actionable recommendations⁷ (2/3)

1. ESG information already disclosed in regulatory filings should be standardized to incorporate risk.

- critical to adopt universal disclosure techniques ... Reforms from the Sustainability Accounting Standards Board (“SASB”), ... do not appear to be feasible for universal compliance due to their sizeable complexity; ... SASB contradicts principal driven approaches like the Global Reporting Initiative.
- Measures should be taken to reform the current non-financial reporting structure so that ESG rating consistency can improve.

2. ESG ratings need to adjust for company size, geographic reporting, and industry sector differences.

- Rating agencies treat the absence of information critically and need to adjust their rating methodologies to address different quantities of information from a geographic and industry specific level.
- This .. should also include how these companies compare to state owned and privately held companies..



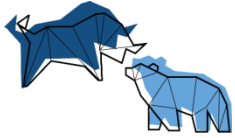
Actionable recommendations⁷ (3/3)

3. ESG rating agencies need to be transparent on how E, S, and G factors impact scores and prioritize those that are material.

- To apply ratings to companies empirically, one must thoroughly understand the underlying assumptions, which, as this paper outlines, are biased, subjective, and limited by non-uniform disclosure.
- With fiduciary duties on the line and the goal of generating standardized returns and long-term performance, a more careful approach is advised.

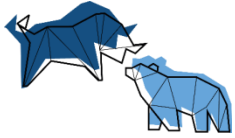
4. ESG rating agencies should be carefully compared and should fully disclose their success rate in protecting investors from large underlying risks.

- ... ESG ratings won't get it right 100% of the time; ... it is important to measure and report how well ESG ratings help investors to mitigate financial risk or identify opportunities.
- Allowing ESG rating agencies to run unchecked in determining significant investment direction is irresponsible and negligent to managers' fiduciary duty.



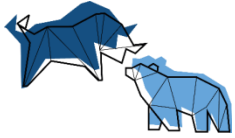
Sources

#	Source	Date of Access	Link
1	Value Research: The rise of ESG investing (2018)	31.01.2019	https://www.valueresearchonline.com/story/h2_storyView.asp?str=46137#prettyPhoto/0/
2	World Bank Group: Listed domestic companies, total (2017)	31.01.2019	https://data.worldbank.org/indicator/CM.MKT.LDOM.NO
3	Become a Better Investor: Companies listed on Stock Exchange around the World (2017)	31.01.2019	http://becomeabetterinvestor.net/blog/how-many-companies-are-listed-on-stock-exchanges-around-the-world
4	SICM: Who are the ESG rating agencies? (2016)	31.01.2019	https://www.sicm.com/docs/who-rates.pdf
5	Journal of Environmental Investing: Guide to ESG Data Providers and Relevant Trends (2017)	01.02.2019	https://cbey.yale.edu/sites/default/files/Responsible%20Investing%20-%20Guide%20to%20ESG%20Data%20Providers%20and%20Relevant%20Trends.pdf
6	ACCF: About ACCF (Web)	01.02.2019	http://accf.org/about/
7	ACCF: Ratings that don't rate (2018)	31.01.2019	http://accfcorp.gov/wp-content/uploads/2018/07/ACCF_RatingsESGReport.pdf



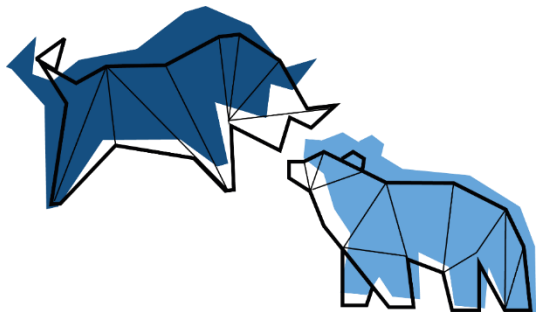
Sources

#	Source	Date of Access	Link
8	CDP: About Us (Web)	01.02.2019	https://www.cdp.net/en/info/about-us
9	Covalence: Team (Web)	01.02.2019	https://www.covalence.ch/index.php/about-us/team/
10	FTSE Russell: Sustainability and ESG Data (Web)	01.02.2019	https://www.ftserussell.com/financial-data/sustainability-and-esg-data
11	MSCI: ESG Ratings Methodology (2018)	01.02.2019	https://www.msci.com/documents/10199/123a2b2b-1395-4aa2-a121-ea14de6d708a
12	RobecoSAM: About RobecoSAM (Web)	01.02.2019	https://yearbook.robecosam.com/about-robecosam/
13	Sustainalytics: ESG Ratings & Research (Web)	01.02.2019	https://www.sustainalytics.com/esg-ratings/
14	Vigeo Eiris: Solutions for Investors (Web)	01.02.2019	http://www.vigeo-eiris.com/solutions-for-investors/investment-universes-structured-esg-products/
15	MSCI: General FAQs (2015)	01.02.2019	https://www.msci.com/documents/10199/248121/MSCI_Corporate+Communications_FAQ_November+2015.pdf/5a755528-c80a-4a10-b812-0a24d59cba8e



EU Sustainable Finance-Agenda

- The EU Commission appointed a “High-Level Expert Group on Sustainable Finance” in 2016 to develop a sustainable finance strategy covering all aspects of finance and insurance in alignment with the Paris Climate Summit and UN-Agenda 2030.
- The resulting EU action plan consists of 10 key objectives, 4 of which with legislative character: taxonomy, asset management/ fiduciary duties, low carbon benchmark and sustainability as an integral component of investment advisory services.
- The EU Commission’s envisaged roadmap:
 - 2019: Completion of the legislative process
 - 2021: Guideline for ESG evaluation for all finance and insurance products
 - 2022: Introduction of taxonomy



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Thank you for your attention!

Mehr Wert im Kapitalmarkt