WHAT ARE COMPANIES DOING IN THEIR ESG JOURNEYS?

In 2011, only 20% of S&P 500 Index companies issued a sustainability report. By 2019, that figure had quadrupled to 90%.

One driver of this change is investor demand. As more people seek to invest in alignment with their values, companies have responded by providing more information.

Another driver is recognition by company management teams that addressing ESG factors is material to their business success.

For example, in a 2019 study of 1,000 CEOs at companies across 100+ countries in 25+ industries, 99% of CEOs said they recognize sustainability as important to the future success of their business, and 48% are actively implementing sustainability into operations.*

In 23 countries (and counting), governments and/or markets have adopted mandated disclosures along ESG lines. The U.S. does not have any such requirements, but voluntary reporting-most prominently in the sustainability reporting noted above-is nonetheless providing investors with meaningful information.

While it's true that some sustainability reporting might be best considered "public relations," much reporting does get at material business issues. As companies begin to define and address these issues, they embark on what we call their ESG journeys.

Not surprisingly, those journeys vary greatly across companies and industries. Material factors for a mining company, say, will be very different than those at a bank. The key idea is that a company sets medium- and long-term goals in relevant areas, works to meet those goals, and reports on the progress.

Here's an example from Nestle, which has made specific public commitments across all of the United Nations Sustainable Development Goals (SDGs), one of which is Clean Water & Sanitation. In that area, Nestle set a medium-term goal to achieve by 2020; the company is approaching success on its specific objective:

GOAL: By 2020 - Reduce direct water withdrawals per tonne of product in every product category to achieve an overall reduction of 35% since 2010.

Status. In progress-29.6% reduction in direct water withdrawals per tonne of product across every category since 2010.

Though sustainability reporting varies across companies – as it should, given material differences among industries – investors are benefitting from some consistent reporting standards that have emerged. These standards provide a framework for against which investors can more readily evaluate companies' progress toward their commitments. The most prominent of these frameworks is known as "GRI," which stands for "Global Reporting Initiative," an organization based in Amsterdam which launched the first framework for sustainability – all the way back in 1997, several years before the term "ESG" was even coined.

INVESTMENT IMPLICATIONS

At Riverwater, we welcome the taking root of reporting standards around ESG dimensions – but there is still a long way to go.

For example, at present, it is difficult for investors to make apples-to-apples comparisons across companies on almost any quantitative dimension. (That may change as efforts such as those taken by Sustainability Accounting Standards Board, or "SASB" take hold.

Still, even if data were to be more readily comparable across companies, intensive research into the factors behind that data would be nonetheless necessary, in our view. As active managers, we conduct in-depth fundamental research to get a clear understanding of what's driving both traditional financial metrics and the newer sustainability-oriented reporting metrics (to the extent the latter are in place).

Specifically, the Due Diligence pillar of our "Three Pillars of ESG Investing" approach is designed to help us effectively dig in and evaluate the ESG factors that matter most to a particular company and its industry.

—Cindy Bohlen, CFA
Chief Mindfulness Officer
& Analyst

The GRI Standards have become the most widely adopted in the industry, with 90% of largest 250 global corporations using them to report on their activities in over 100 countries. The following set of "Material Issues" in the GRI framework provides a further sense of where companies are focusing on their ESG journeys.

GRI "Material Issue" reporting standards

Economic

GRI 201: Economic Performance
GRI 202: Market Presence
GRI 203: Indirect Economic-Impacts
GRI 204: Procurement Practices
GRI 205: Anti-corruption
GRI 206: Anti-competitive Behavior

Environmental

GRI 301: Materials
GRI 302: Energy
GRI 303: Water and Effluents 2018 Effective From 01 Jan 2021
GRI 304: Biodiversity
GRI 305: Emissions
GRI 306: Effluents and Waste
GRI 307: Environmental Compliance
GRI 308: Supplier Environmental Assessment

Social

GRI 401: Employment
GRI 402: Labor / Management Relations
GRI 403: Occupational Health and Safety
GRI 404: Training and Education
GRI 405: Diversity and Equal Opportunity
GRI 406: Non-discrimination
GRI 407: Freedom of Association and Collective Bargaining
GRI 408: Child Labor
GRI 409: Forced or Compulsory Labor
GRI 410: Security Practices
GRI 411: Rights of Indigenous Peoples
GRI 412: Human Rights Assessment
GRI 415: Public Policy
GRI 416: Customer Health and Safety
GRI 417: Marketing and Labeling
GRI 418: Customer Privacy
GRI 419: Socioeconomic Compliance
Source: Global Reporting Initiative