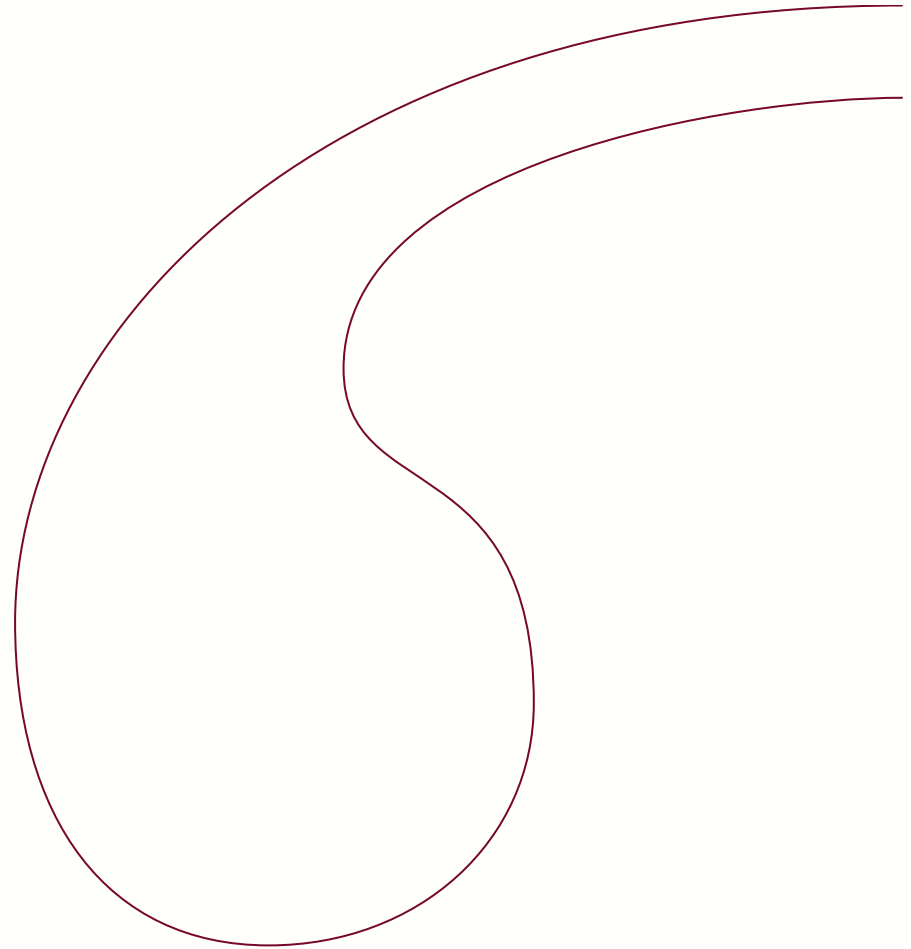


# Integrated Governance Index Institutional Investor Survey

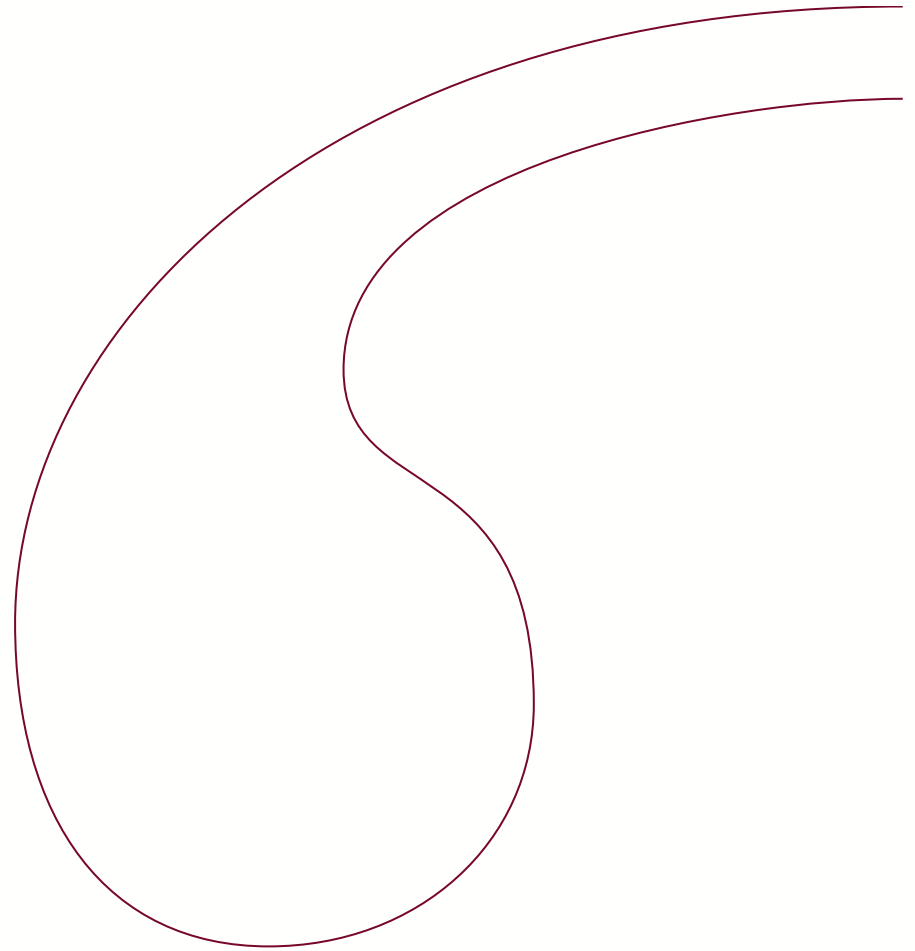




## 1.00 – BACKGROUND AND METHODOLOGY

## 2.00 – KEY FINDINGS

1. Q1 - To what extent are you implementing the 'integrated governance' model into investment decisions?
2. Q2 - Are companies providing sufficient disclosure to allow investors to complete an integrated governance analysis?
3. Q3 - Could you provide an example of integrated governance analysis into equities? And how it works in practice?
4. Q4 - What are your expectations of integrated governance (disclosure) analysis over the next year?
5. Q5 - Which board committees should be held accountable for sustainable issues?



1.00

## Background & Methodology

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### Background

#### Objective & focus themes:

- The Scope was to identify investor perspective of **integrated sustainability issues** into investment models and **the key aspects investors want to see In 2016.**
- We focused on **2 key themes**: evidence investors integrate **sustainability drivers into investment decision** models and the aspects of **sustainability corporate disclosure** companies should focus on.

#### Importance

- The survey provides a useful sample for companies to understand investor perspective and strategy when monitoring company's level of sustainable integration and the **key areas to focus on when seeking engagement** opportunities.
- The outcomes from this survey should help companies with **proactive engagement** to align the interests of all stakeholders.

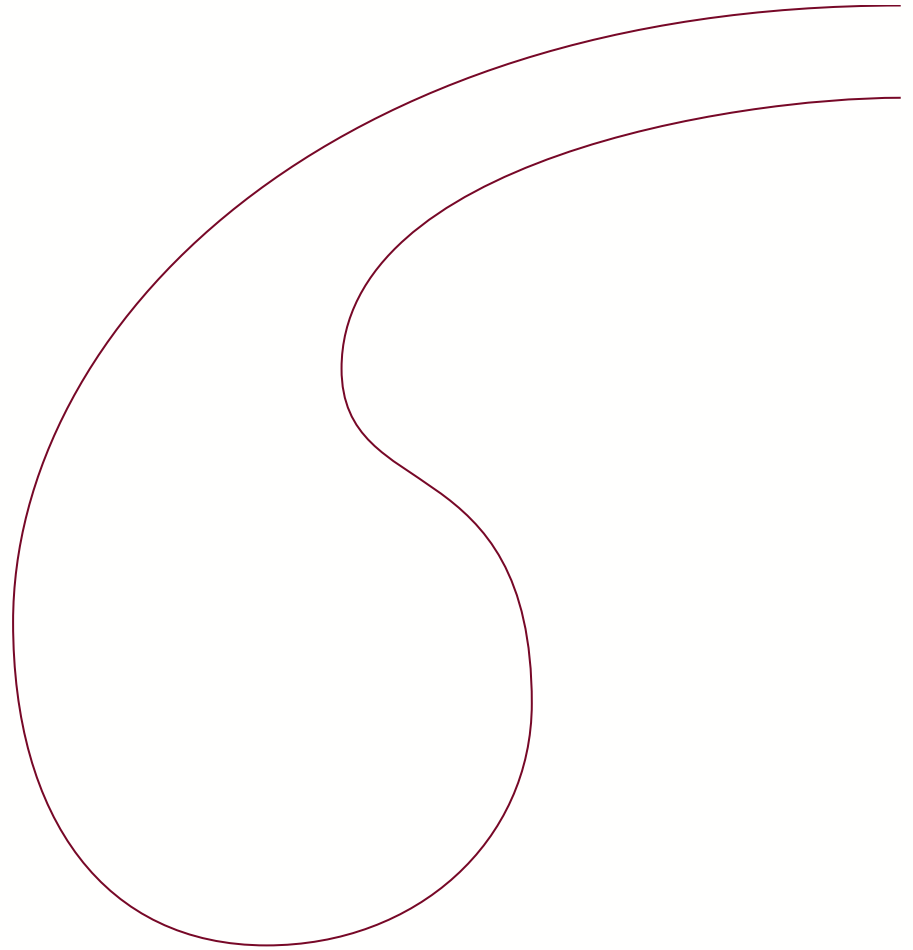
### Methodology

#### Governance reference

- **The target group** included investors with significant exposure to **European equities** as well as **possessing strong stewardship teams** or experienced corporate governance associates.
- We gathered feedback/sentiment from **corporate governance specialists** and **responsible investment specialists** via conference calls.

The survey was conducted in **January 2016** to understand investor perception, practices and key expectations in relation to integrated governance in 2016.

We spoke with **10 institutional** investors managing a combined **\$5.5 Trillion in assets under management.**



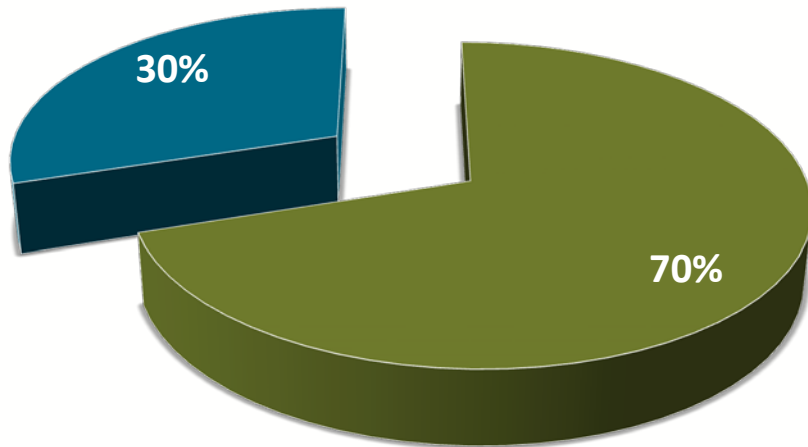
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## Key Findings

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Q1. To what extent are you implementing the integrated 'governance model' into investment decisions?



■ Fully ■ Partially

Main takeaways

- **All investors** understand the concept 'integrated governance' as a stepping stone to better governance, 'the final frontier' so to speak.
- **70% of investors 'fully' integrate** sustainable issues into their investment decision models across all asset classes and funds.
- A further **30% 'partially' integrate** sustainable issues into their investment decision models. **All participants** confirmed this tends to split into 2, *SRI funds and non-SRI funds*.
- **A number of investors are adopting new models to monitor risk with environmental and social aspects** being a major part of that process. Investors state this is a work in progress and not yet consistence across all assets classes and funds.



Q2. Are Companies providing sufficient disclosure to allow investors to complete an integrated governance analysis?

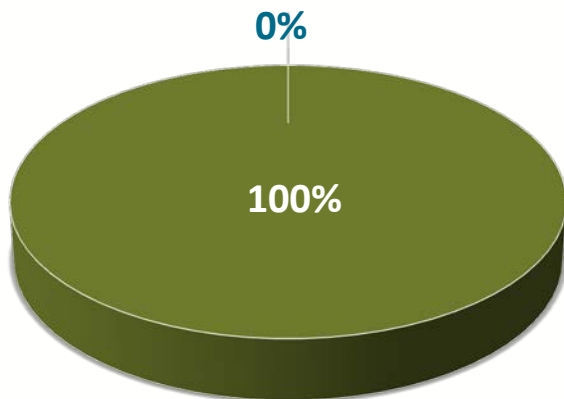
Main takeaways

→ Interestingly, **100% of investors suggested companies were not providing sufficient disclosure** to allow investors to complete an integrated governance analysis.

→ **Two common views** amongst investors

- “is a **need to see material information** and currently there is too much information that is simply not required for investors analysis” and,
- “**In some instances too much disclosure and dispersed in various formats**, want to see material information all in place.”

→ One investor commented, “***In Italy we prefer to see the right disclosure, at the moment too much prescribed disclosure and this makes it difficult to filter material information.***”



■ Yes ■ No



Q3. Could you please provide an example of integrated governance analysis into equities? And how it works in practice?

## Main takeaways from investor responses

- *Governance is a **key driver** and very much a part of investors' investment process and decision making*
- *A long term shareholder in a **European consumer goods company** expressed **clear concerns** with
  - **board structure,**
  - **succession planning,** and
  - **skill levels***

*Which led to on-going engagement to reinforce their comments in writing.*

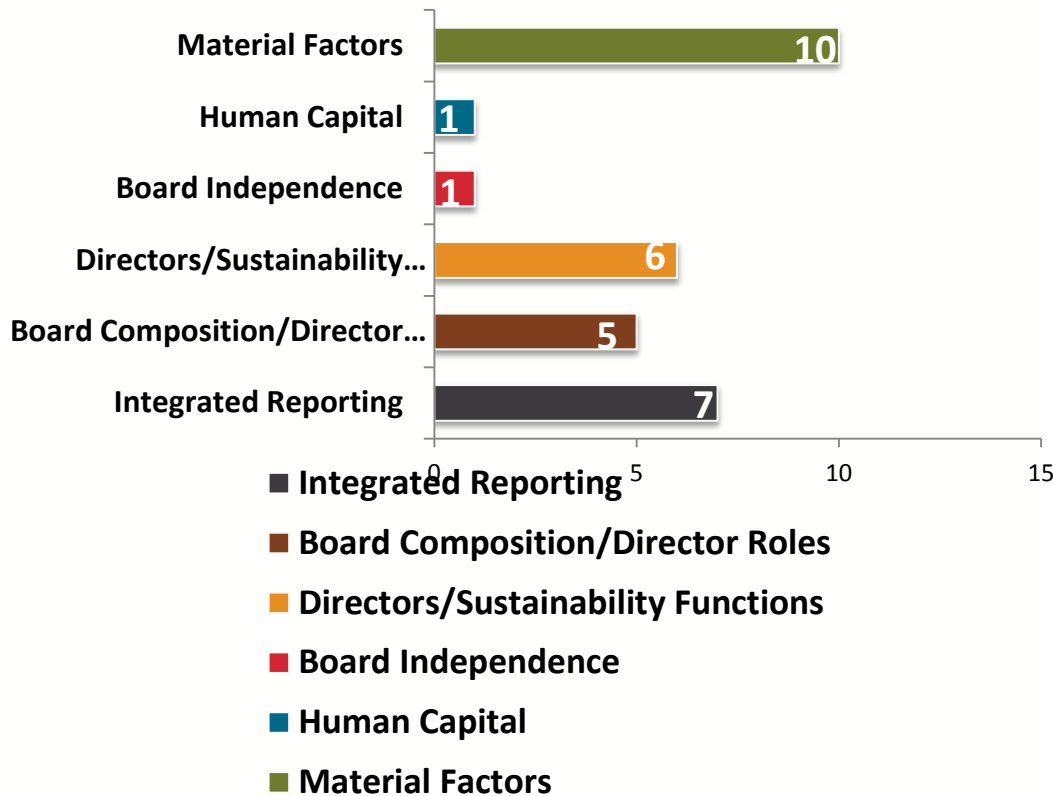
## Main takeaways from investor responses

- *One of the investors advised that all their **SRI funds** are fully integrated. These funds **set the highest standards of ESG requirements** related to themes such as **board diversity, remuneration** criteria or **climate change** related targets.*
- *Another investor indicated that
  - *"In a meeting with the **climate and sustainability project leader** of a European extractives company, we were pleased to hear that the company is making **substantial efforts to improve its disclosure on the resilience of its asset portfolio and planning for climate change.***As a response to a shareholder resolution requesting **improved climate change reporting**, which we supported, the company designed a roadmap to **enhanced carbon transparency**".*





Q4. What are your expectations of integrated governance (disclosure) analysis over the next year?

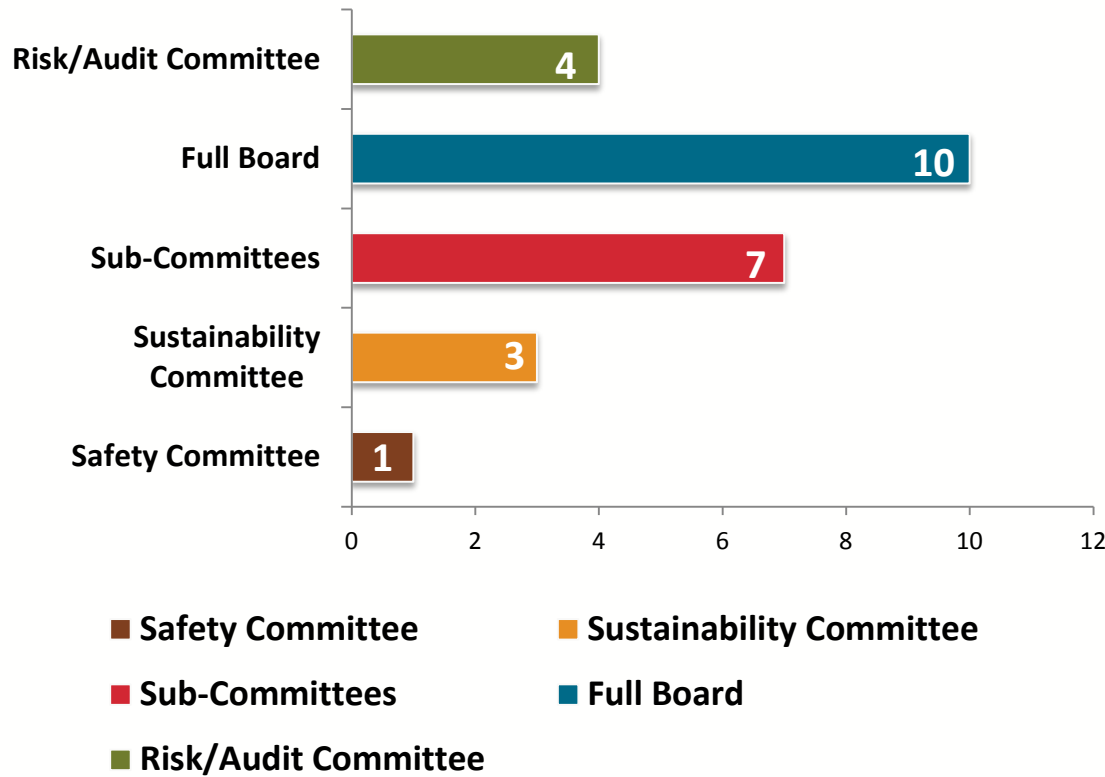


Main takeaways

- **100% of investors** would like to see a focus to improve aspects of **material disclosure** but acknowledge it is a work in progress.
- **70% of investors** would like to see companies consider a move towards **integrated reporting** or explore the idea to understand if it suits their business model/cycle.
- **60% of investors** would like to see better disclosure on the individuals responsible for **sustainability issues** and **integration**.



## Q5. Which board committees should be held accountable for Sustainable Issues?



### Main takeaways

- **70%** of investors suggest clear disclosure of who the **sub-committees report into**, so to better understand who is accountable.
- However **100%** of investors **believe the full board should be held accountable** for sustainable issues.
- In situations a specific committee should be accountable, **30%** of investors suggest the sustainability committee should and **40%** suggest the **risk/audit committee**.



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ALIGNING INTERESTS

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