MORROW SODALI

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GAINING INVESTORS' CONFIDENCE

Corporate Governance isn't a trend, it has come to stay. This is confirmed by Morrow Sodali's *2018 Institutional Investors Survey*, which reflects the growing interest of the investment community in corporate environmental, social and governance (ESG) practices. Along the same lines, the *Global Sustainable Investment Alliance* notes the growth of assets under management that integrate ESG criteria into their investment or divestment decision processes, increasing from $18 trillion dollars in 2014 to $23 trillion in 2016.

But why the growing interest of investors in ESG factors? The answer is simple: more and more information confirms that the analysis of environmental, social and governance factors can help increase the return on investments. This is supported by two recent studies, *From "why" to "why not": Sustainable investing as the new normal* and *Total Societal Impact. A new lens for strategy*, elaborated by McKinsey and BCG respectively.

Among investors with an ESG profile, the exclusion of certain companies or sectors (tobacco, arms, etc.) continues to be a predominant strategy. However, the integration of ESG criteria into the main analysis and Engagement as a lever for value creation, are the next most widespread strategies. Of the three, Engagement is the one that has experienced the greatest relative growth in recent years as a formula for the consideration and analysis of ESG aspects in their investments.

From a regulatory perspective, the *European directive on the disclosure of non-financial information* (together with previous ones in related areas) has echoed these trends, highlighting the importance of communicating the application of issuers' ESG policies to the market. This regulatory impulse will accelerate the alignment of the investment community's ESG information requirements and expectations with the information provided by companies.

Consequently, the communication of ESG practices adopted will not only benefit the investor when making decisions and supervising its investees, but also those companies that seek the sustainability of its business through alignment, not only with the interests of investors, but also with those of other stakeholders.

Therefore, when designing their corporate strategies, companies should communicate both the conventional factors (revenues, debt, cash-flow, etc.) and those related to ESG, seeking in this way to confirm the alignment of interests, such as the creation of long-term value or the minimisation of risk. The greater the alignment, the more investors will support corporate decisions.

Listed companies, subject to market scrutiny, will require the support of their shareholders when taking the most important strategic corporate decisions (mergers, acquisitions, spin-offs, etc.), so beforehand they should be aware to what extent these decisions are aligned with their expectations. Therefore, the company (supervised by the Board) should strive to know who its investors are, what principles govern their investment decisions, and how they value the company's ESG practices.

Regular engagement between the company and investors is essential. Being proactive and based on transparency, engagement allows a relationship to be developed and consolidated over the long term, reinforcing the support and confidence of investors.

The continuous pursuit of sustainable value creation, through the adoption of ESG best practices, means that companies can count on the much-needed support of its investors when it comes to taking important corporate decisions, both those taken on a voluntary basis and those that taken in the context of unwanted or unexpected scenarios (hostile offers, activism, loss of confidence, etc.).

About Morrow Sodali

Morrow Sodali is the leading global consultancy providing comprehensive governance and shareholder services to corporate clients around the world. We provide companies and their board of directors with strategic advice and services in corporate governance, capital markets intelligence, shareholder communication and engagement, proxy solicitation, activism, and related ownership issues.

With headquarters in New York and London and local offices and partners in ten countries, Morrow Sodali serves more than 700 corporate clients in 40 countries, including many of the world’s largest multinational corporations. In addition to listed and private companies, its clients include mutual funds, stock exchanges, membership associations and activist investors. For further information about Morrow Sodali, please visit www.morrowsodali.com