

1 FUNCTION DESCRIPTION

The Investor Relations (IR) function is responsible for the strategic, timely, accurate and compliant communication of the company's financial performance to the investment community in an effort to secure fair market valuation of the company's securities. In turn, IR offers management insights into capital markets to inform strategy setting and corporate decision making.

2 VALUE PROPOSITION

Integration of sustainability into IR will enable the company to better understand the interest that both mainstream and the so-called Socially Responsible Investors (SRI) increasingly have with respect to sustainability (ESG) information, and how they integrate this information into their investment research and engagement.

This will enable the company to effectively communicate to investors about its sustainability goals, strategies and performance, thereby creating more alignment between the company and its investors with respect to the financial value drivers and supporting attraction and retaining of investors. Over time, integration of sustainability into IR also opens for opportunities to gradually shift the investor base to add additional investors that invest for the long-term and reward good sustainability performance, because of its importance to especially long-term value protection and creation.

3 STRATEGIC INTEGRATION

The strategic aim for the IR function with respect to sustainability integration should be to increase the value that the company's investors assign to sustainability / ESG and thereby increase the return on investment of the company's sustainability strategies and programs. Considering that many mainstream and short-term investors only assign little value to ESG, it should also be a priority for the company to leverage its sustainability strategy to proactively target attract investors that better reward the long-term financial value created through sustainable business strategies.

The IR team should set goals and define outcomes that can clearly communicate the short- and the long-term financial benefits of sustainability activities to investors. IR should also take advantage of their relationship with investors in order to inform the company's strategic decision makers on the emerging ESG concerns, initiatives and processes in the investment community and advise on which are the most important to address.

To do this effectively, IR should increasingly build close relationship with not only Finance and Accounting but also the Sustainability function, and seek to engage in cross-functional working groups or committees that develop and implement the company's sustainability strategy.

4 OPERATIONAL INTEGRATION

IR should create and regularly update a segmentation of current and potential investors that gives proper attention to investment objectives, time horizons, level of integration of ESG issues into research and decision-making, and the extent to which the investors have a track-record of engaging actively with companies on these matters.

Based on this understanding of the ESG profiles of its current and potential investors, IR should work with Finance & Accounting and the Sustainability functions to develop a robust "sustainability story" that communicates well with investors and describes the company's short- and long-term sustainability strategies in terms of its financial value drivers. Specifically, sustainability should be communicated using metrics that are both decision-useful and familiar to investors, such as net present value, earnings per share, operating margins and productivity, revenue growth expectations, and exposure to risk.

IR should make sure to consistently communicate this "story" in its official disclosures --covering now often both sustainability, financial and 'integrated' reports--and in response to 'ESG questionnaires' and the questions that may or may come up during quarterly earnings calls and other traditional investor-company communication. The absence of specific inquisition into ESG is however not always a sign that investors aren't evaluating sustainability strategies and performance, or open to doing so should the company be able to convince them of their relevance. IR should thus explore options for proactively communicating with investors on ESG, including through its regular channels and more innovative approaches like dedicated roadshows or online investor briefings.

By more actively and proactively addressing sustainability-related shareholder interests and concerns, IR may already be taking steps to gradually shift the investor-base in a direction that reward the company's long-term investments in a fully integrated sustainability strategy. Accelerating this development, the company may decide to cater less to the short-term interests of its investors and deliberately and proactively seek out potential future investors that are better aligned.

To support all these efforts, IR should closely monitor trends on responsible investment and developments in the strategies of credit rating agencies and investor initiatives and groups like the Principles for Responsible Investment (PRI).

5 CULTURAL INTEGRATION

IR professionals are generally characterized by their strong communication skills, ability to think holistically about the company's current profile and future opportunities, and their experience in navigating diverse shareholder interests. As such, there are important competences that are apt for communicating a company's sustainability strategies to the outside world.

An important limiting factor to this potential role is the very narrow focus on shareholder interest that IR traditionally has. For IR, their interest in engaging in sustainability at the outset will be informed by the questions they receive from shareholders and if ESG or sustainability isn't brought up, the conclusion easily is that sustainability is an "ethical concern" that is only relevant for socially responsible investors. Companies should strongly consider testing these assumptions by initially testing out one of the recommended proactive ESG communication strategies above and gauging the reaction of its mainstream investors.

In many companies, there is a need and opportunity change the IR mindset that may currently mostly consider sustainability relevant in terms of risk management, by framing sustainability rather --as it is also increasingly viewed by investors-- as a lever for growth and a good proxy for operational excellence.

6 EMERGING TRENDS AND INNOVATIONS

ESG Investor Briefings

One way for IR to begin to proactively communicate on sustainability with mainstream investors is to conduct an ESG Investor Briefings, potentially facilitated by the UN Global Compact and PRI. Modeled after quarterly earnings calls, briefings aim to ensure that sustainability performance is sufficiently rewarded by financial markets. Highest level company executives present to an audience of mainstream investors how their ESG strategies and performance are translating into financial value.

Quantify financial value drivers of sustainability

Sustainability, Finance & Accounting and IR teams are in some companies working closer together to identify and track financial value drivers of sustainability that can be communicated to investors as familiar, decision-useful metrics. These could include revenue growth; total cost savings (and cost avoidance) from sustainability-driven productivity initiatives; and/or reduced sustainability-related risk exposure that could materially impair performance, as presented by the UN Global Compact's Value Driver Model. This information can serve as the basis for messages in conversations with investors.

Boards must prepare address shareholder activism

There are a growing number of shareholder campaigns that aim to compel a company to address concerns related to ESG factors, such as climate change, human rights violations or labor concerns. Further, many large investment firms increasingly prefer to engage directly with the Board of Directors with a view to ensure that it doesn't neglect its duty to oversee the implementation policies and procedures that ensure responsible business behavior or if it sees that a Board may not adequately respond to sustainability issues with the potential to affect competition and rivalry within the industry.