

Making the Match:

The Market's Evolving
View of the Materiality
of Nonfinancial
Information



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Depository Receipts



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Invested

Large Global Survey



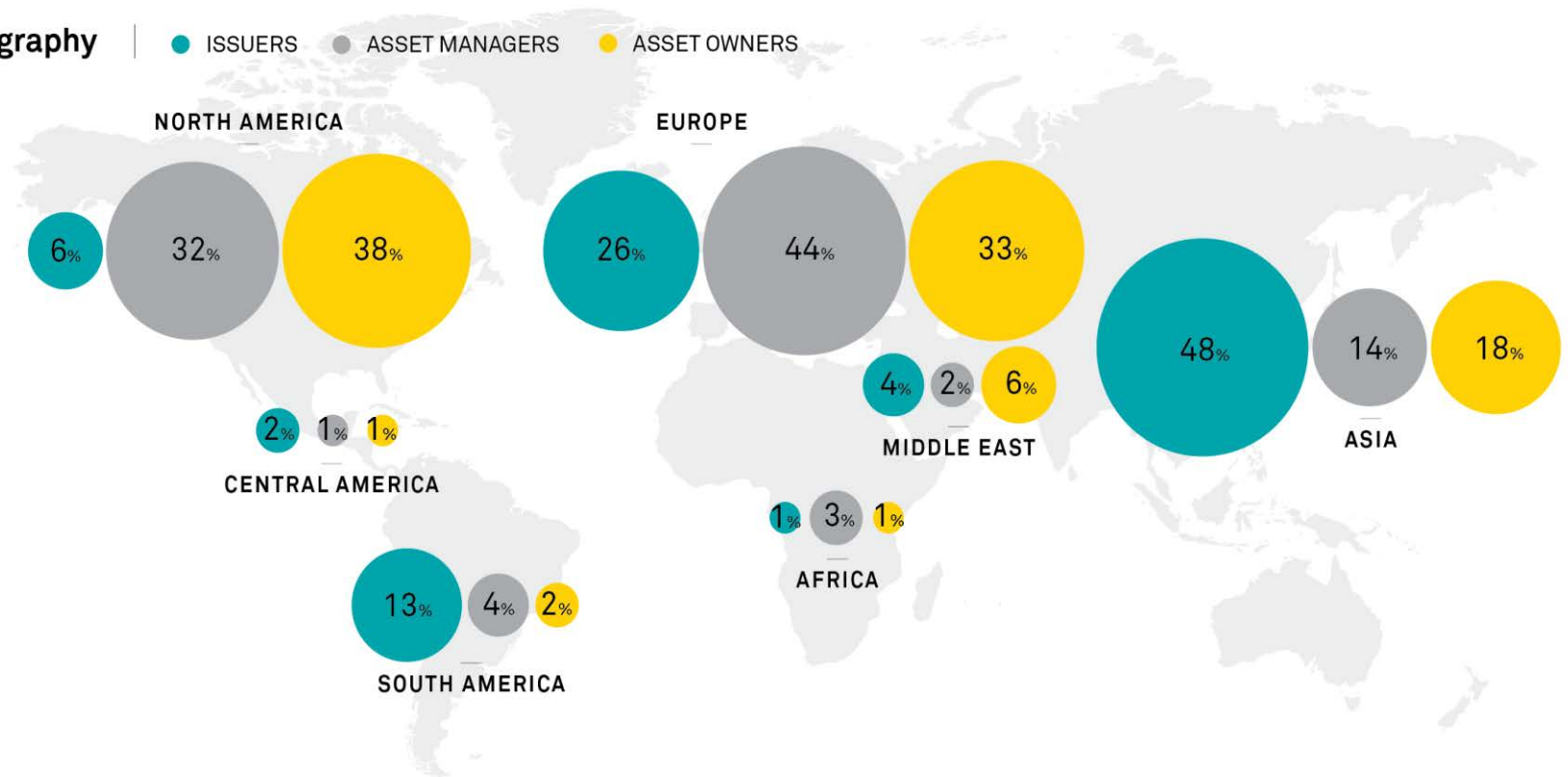
Source: BNY Mellon, Making the Match: The Market's Evolving View of the Materiality of Nonfinancial Information, p.3, June 2017.

Geographic Distribution of Respondents

Asset Managers and Asset Owners surveyed were primarily based in the U.S. and Europe

Geography

● ISSUERS ● ASSET MANAGERS ● ASSET OWNERS





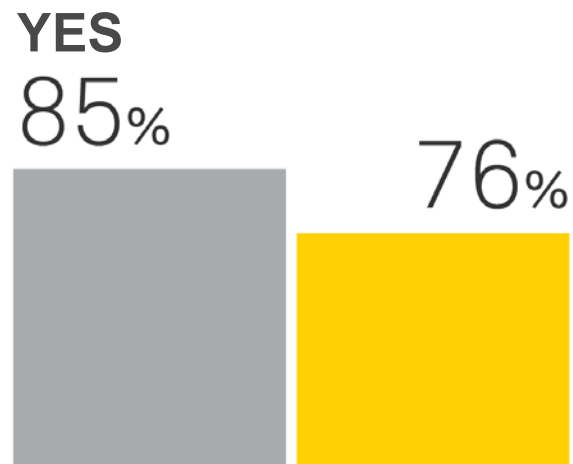
Key Findings

- 1. Nonfinancial information is considered material**
- 2. Investors are embracing this trend more than issuers**
- 3. Governance is a key concern of both asset owners and asset managers**
- 4. Climate change is viewed as critically important by investors, 75% of whom say it poses a material risk to companies' performance**
- 5. There is no clear consensus of the participating investors on which formats they would find most useful for receiving Nonfinancial information**
- 6. Issuers and investors disagree on which data is important**

Investors say Nonfinancial information is material to the performance of their investments

Do you consider Nonfinancial information in your investment decisions?

84% of asset owners and asset managers combined responded that they believe a focus on Nonfinancial information generates positive value for an issuer's financial performance



Nonfinancial information is often material to investment performance



We anticipate it to become material in the near future



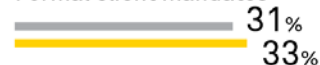
We believe such policies to be effective in bringing about change at firms



Growing client/stakeholder demand



Formal client mandates



It is part of our investment product strategy



We see it as an ethical responsibility



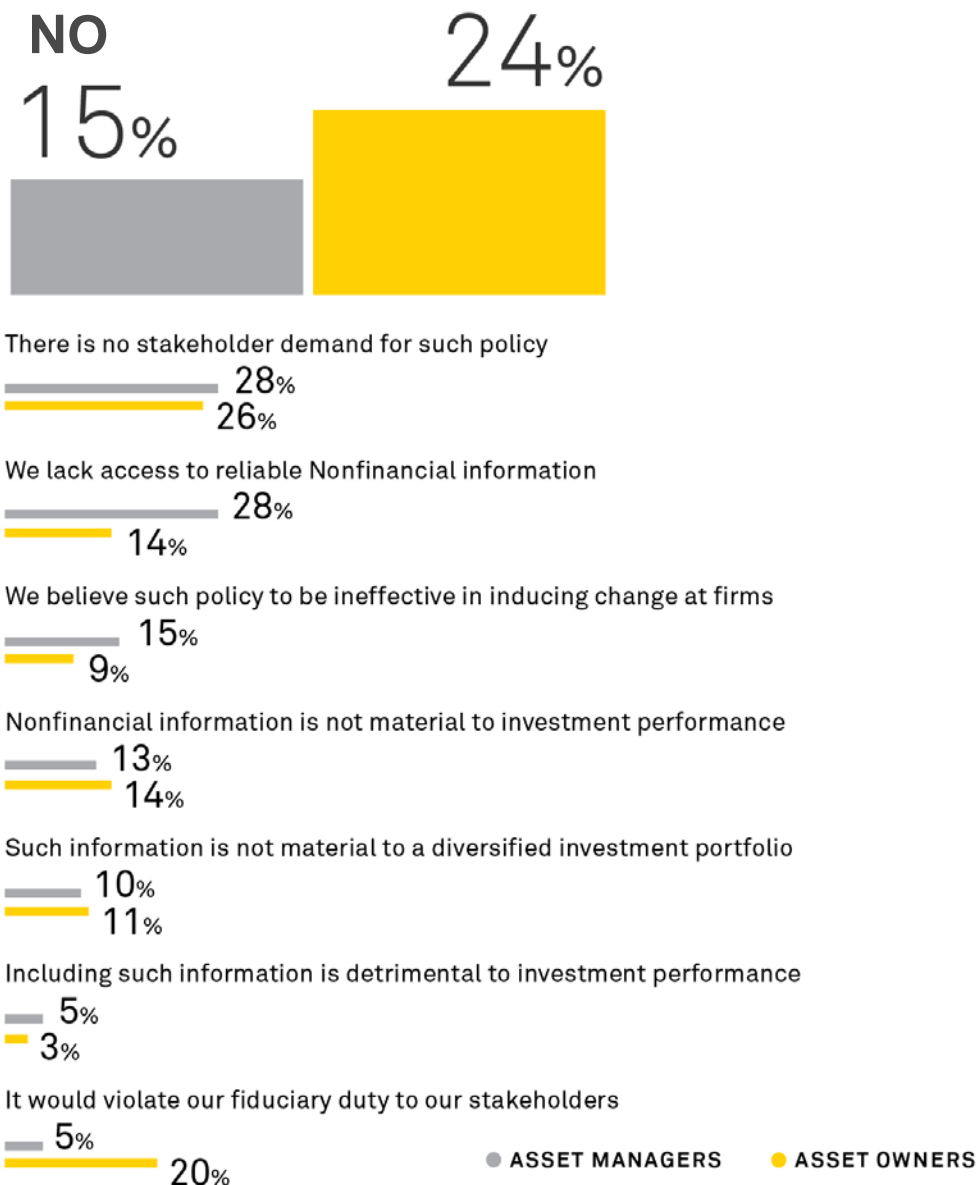
● ASSET MANAGERS ● ASSET OWNERS

U.S.-based Asset Owners may have delayed the introduction of nonfinancial information into their investment process

Do you consider Nonfinancial information in your investment decisions?

20% of the 24% of asset owners not using Nonfinancial information in their investment process said that this is because using it may violate their fiduciary duty

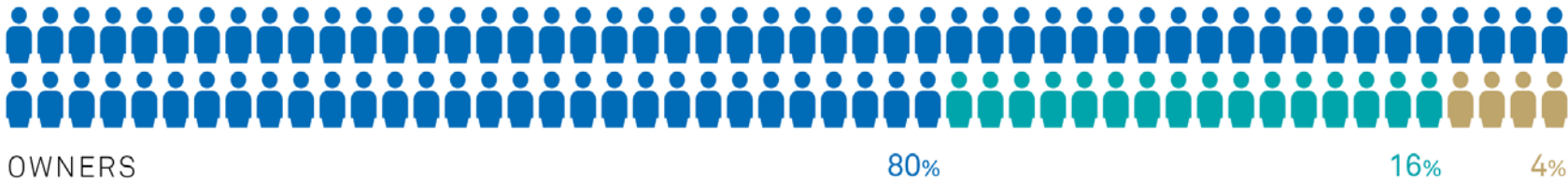
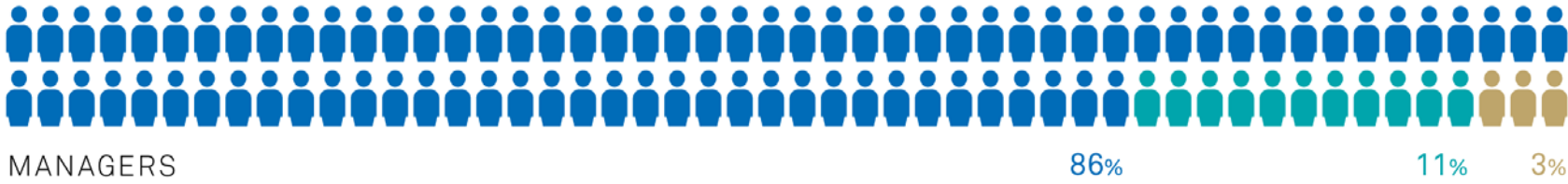
Only 3% of asset owners see an issuer's focus on ESG as negative, or resulting in a cost to shareholders



Investors, more than issuers, strongly believe that CSR/ESG initiatives directly benefit shareholders

Do you agree with the following statements? Nonfinancial information is material to investment decision making because...

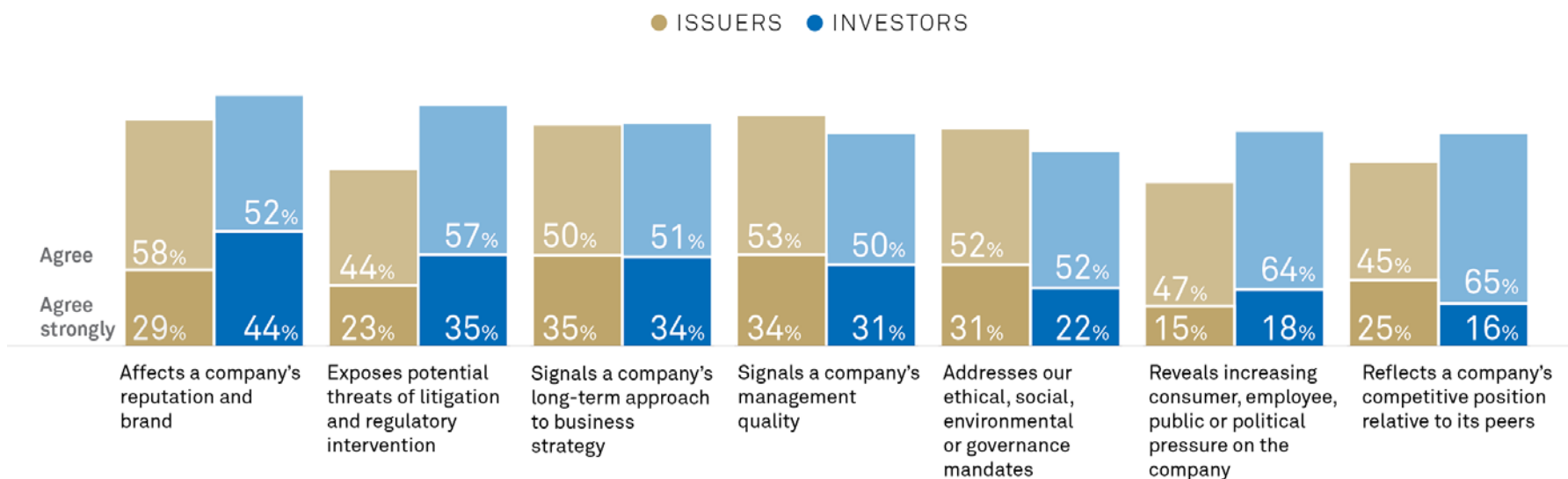
- CSR/ESG initiatives benefit shareholders directly
- Environmental, social, and governance initiatives benefit other stakeholders but do not directly affect companies' shareholder value
- CSR/ESG initiatives are costly and affect companies' shareholder value negatively



Issuers quantify risks, while investors benchmark issuers globally

Investors (92%) consider Nonfinancial information to be most relevant in exposing potential threats of potential regulatory intervention and litigation risk, issues that significantly fewer issuers (67%) believe to be why investors use Nonfinancial information

In what ways do companies' environmental, social, and governance (ESG) initiatives most contribute to shareholder value?

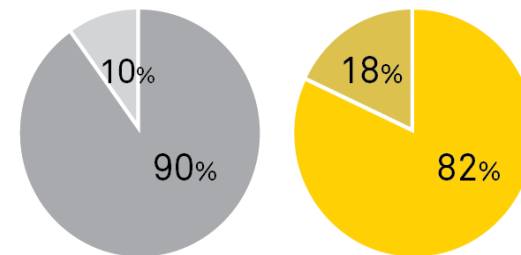


18% of Asset Owners do not believe that disclosure of Nonfinancial information signals a company's longer-term approach to business strategy

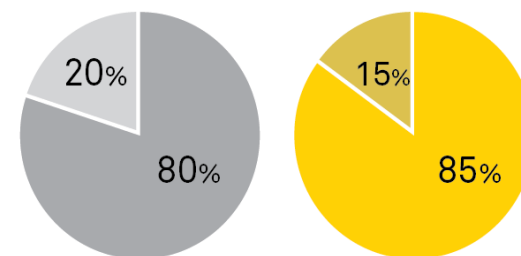
To what extent do you agree with the following statements? Nonfinancial information is material to investment decision making because it...

Almost 30% of asset managers do not believe that the Nonfinancial information they currently receive addresses their ethical, social, environmental or governance mandates

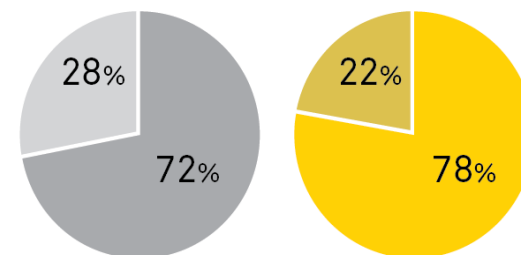
Signals a company's long-term approach to business strategy



Signals a company's management quality



Addresses our ethical, social, environmental or governance mandates



ASSET MANAGERS ● (Strongly) Agree ● (Strongly) Disagree
 ASSET OWNERS ● (Strongly) Agree ● (Strongly) Disagree

Corporate governance and employee policies are seen as material across all sectors

In which sectors do you consider these Nonfinancial issues most material for investment decisions to warrant disclosure?

	BASIC MATERIALS	INDUS-TRIALS	ENERGY	UTILITIES	TRANS-PORTATION	PROF. SERVICES	CONSUMER & RETAIL	FINANCIAL SERVICES	HEALTH CARE	TECH, MEDIA & TELECOMS
ENVIRONMENTAL										
The impact of climate change on the firm's markets or business operations	75%	68%	83%	73%	68%	38%	45%	43%	43%	40%
A company's energy and water consumption	75%	75%	74%	72%	64%	39%	49%	39%	46%	45%
A company's waste management practices and environmental policies	79%	78%	73%	70%	62%	40%	53%	39%	53%	47%
SOCIAL										
A company's employee policies and practices	74%	74%	74%	73%	73%	77%	77%	78%	77%	76%
The CSR/ESG policies and practices of a firm's suppliers	65%	70%	66%	64%	64%	58%	72%	60%	65%	65%
A company's human rights practices and policies	73%	69%	69%	65%	67%	67%	71%	65%	68%	68%
The impact of their products on customers (well-being, data privacy, customer service)	56%	57%	57%	59%	60%	71%	79%	75%	76%	74%
The impact of their business activities on local communities	74%	70%	71%	71%	66%	60%	64%	62%	62%	62%
GOVERNANCE										
A company's governance policies (leadership, ethics, tax policy, transparency)	79%	79%	80%	79%	79%	83%	86%	82%	82%	81%

LOW IMPACT

HIGH IMPACT

Asset managers and asset owners agree on the top two nonfinancial issues they see as most material

Over two-thirds of each group cited Codes of conduct and ethics as a key consideration. These issues can both be classified as governance concerns

Which Nonfinancial metrics are most material to your investment decisions in the medium to long term?

ASSET MANAGERS TOP 10 ISSUES

Leadership & board policies	69%
Codes of conduct, ethics & anti-corruption	68%
Energy & fuel management	61%
The long-term impact of products and services	57%
Data security & customer privacy	55%
Waste & hazardous materials management	54%
Product quality & safety	54%
Greenhouse gas emissions	53%
Employee health, safety & well-being	53%
Stakeholder engagement	52%

ASSET OWNERS TOP 10 ISSUES

Codes of conduct, ethics & anti-corruption	65%
Leadership & board policies	61%
Product quality & safety	55%
Customer/Client satisfaction	53%
Energy & fuel management	52%
Waste & hazardous materials management	52%
Employee health, safety & well-being	52%
Water & wastewater management	52%
The long-term impact of products and services	50%
Compensation & benefits	50%

Issuers and Investors differ on what Nonfinancial information will be most material in the future

Which Nonfinancial issues have been important to your investment decisions in the past 5 years? What will be most important in the next 5-10 years?



Issuers and investors differ on how climate change creates risk

In choosing both stranded assets and regulatory risk at higher rates than issuers, investors are focusing on more systemic or global concerns than are issuers, with their focus on customer demand

One factor in this difference could be a portfolio-level focus by investors...as compared to the company-level focus of issuers

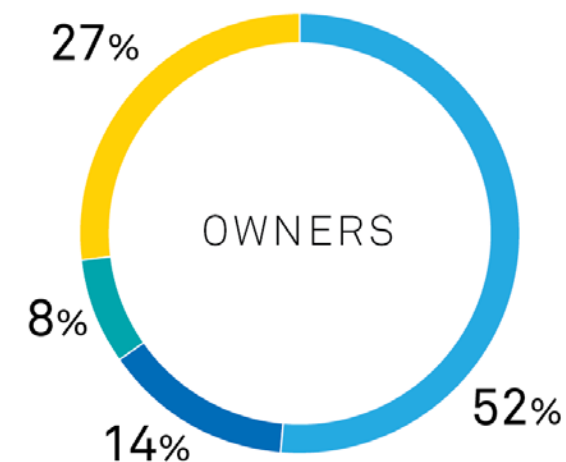
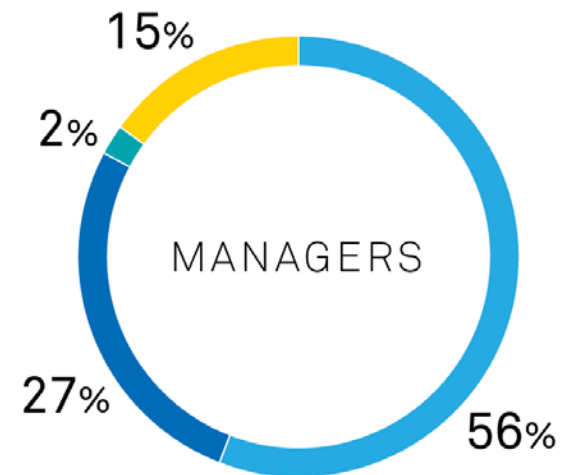
Does climate change pose risk to companies? For organizations, climate change poses material...



More than half of asset owners and asset managers use Nonfinancial information across their products or services

Do you consider Nonfinancial information in your investment process?

27% of asset owners responded that they do not use Nonfinancial information at all in their funds, almost double that of asset managers (15%)



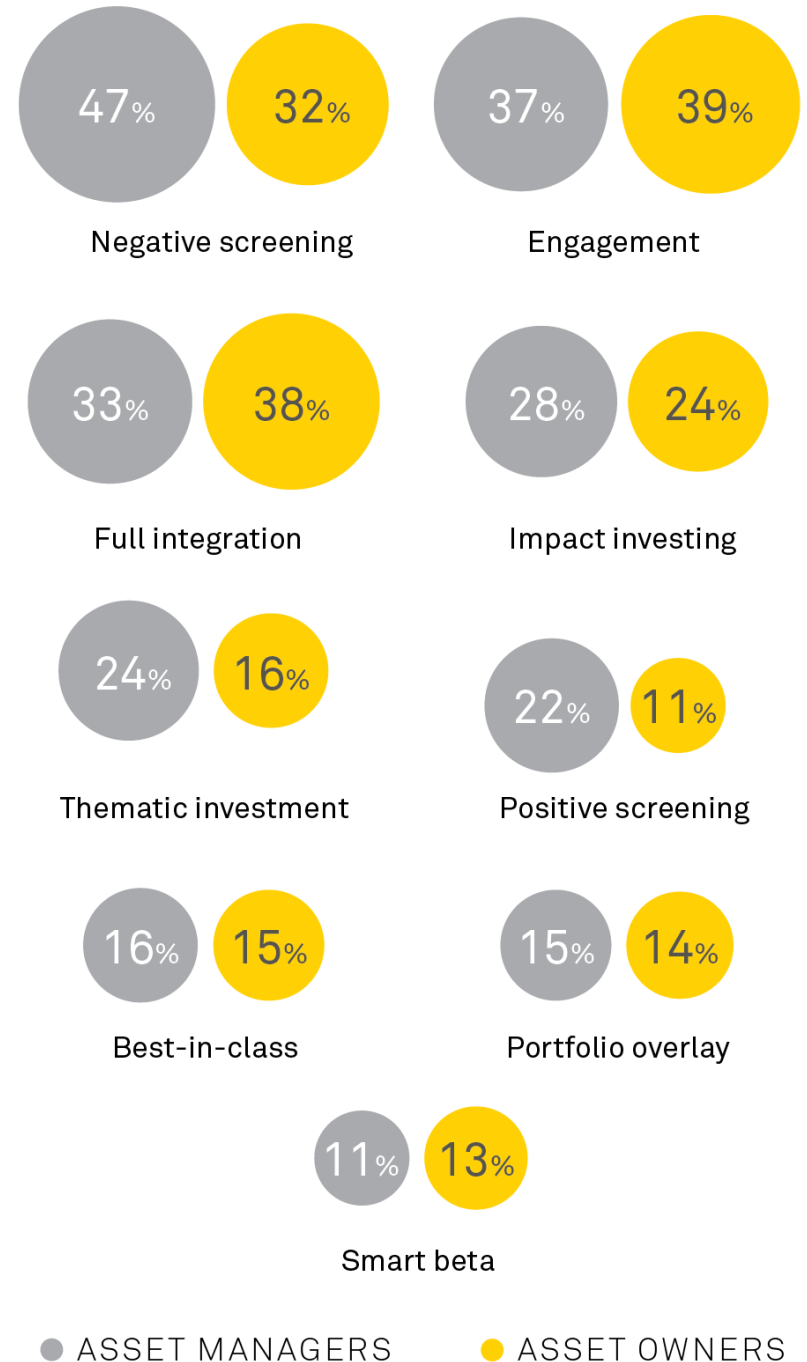
- In all funds (traditional and ESG/SRI)
- Only in specialist funds such as ESG or SRI funds
- Only for proxy voting purposes
- We do not consider ESG information

Both negative screening and engagement strategies are in current use

In which of the following ways do you integrate material Nonfinancial information in your investment process?

Negative screening is still used frequently

In the survey, 47% of asset managers report that they currently use negative screening, as compared to 32% of asset owners



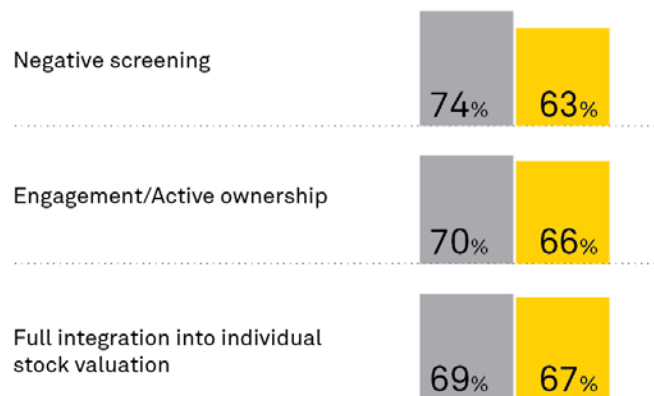
The use of Nonfinancial information in any form is expected to increase in importance in the future, and is expected to moderately benefit returns

Asset managers report that they expect screening methods to remain important in the future

Negative screening is currently the most frequent method reported by investors who use Nonfinancial information, despite the fact that investors expect the impact on financial performance to be moderately negative relative to other methods.

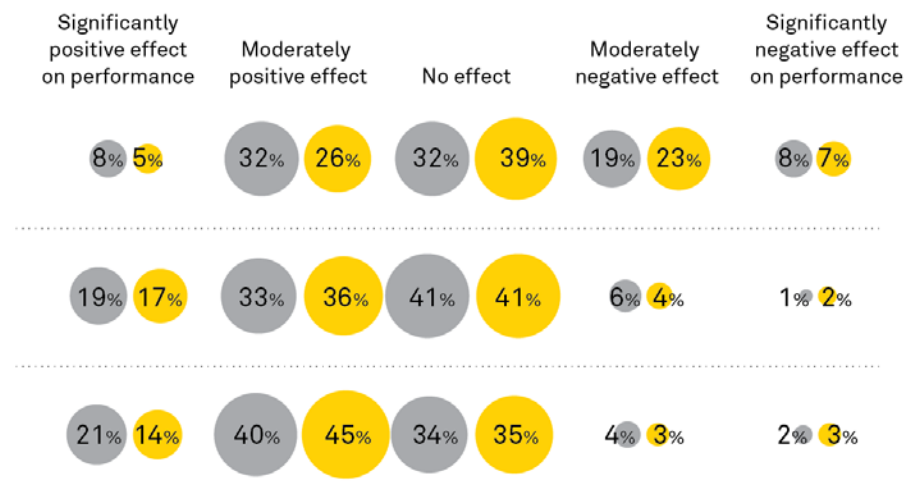
Future Importance

How important will the following methods of using ESG information in your investment process become in the next five years?



Impact on Returns

Which of the following ESG/SRI strategies do you believe improve or reduce investment returns compared to a market index benchmark?

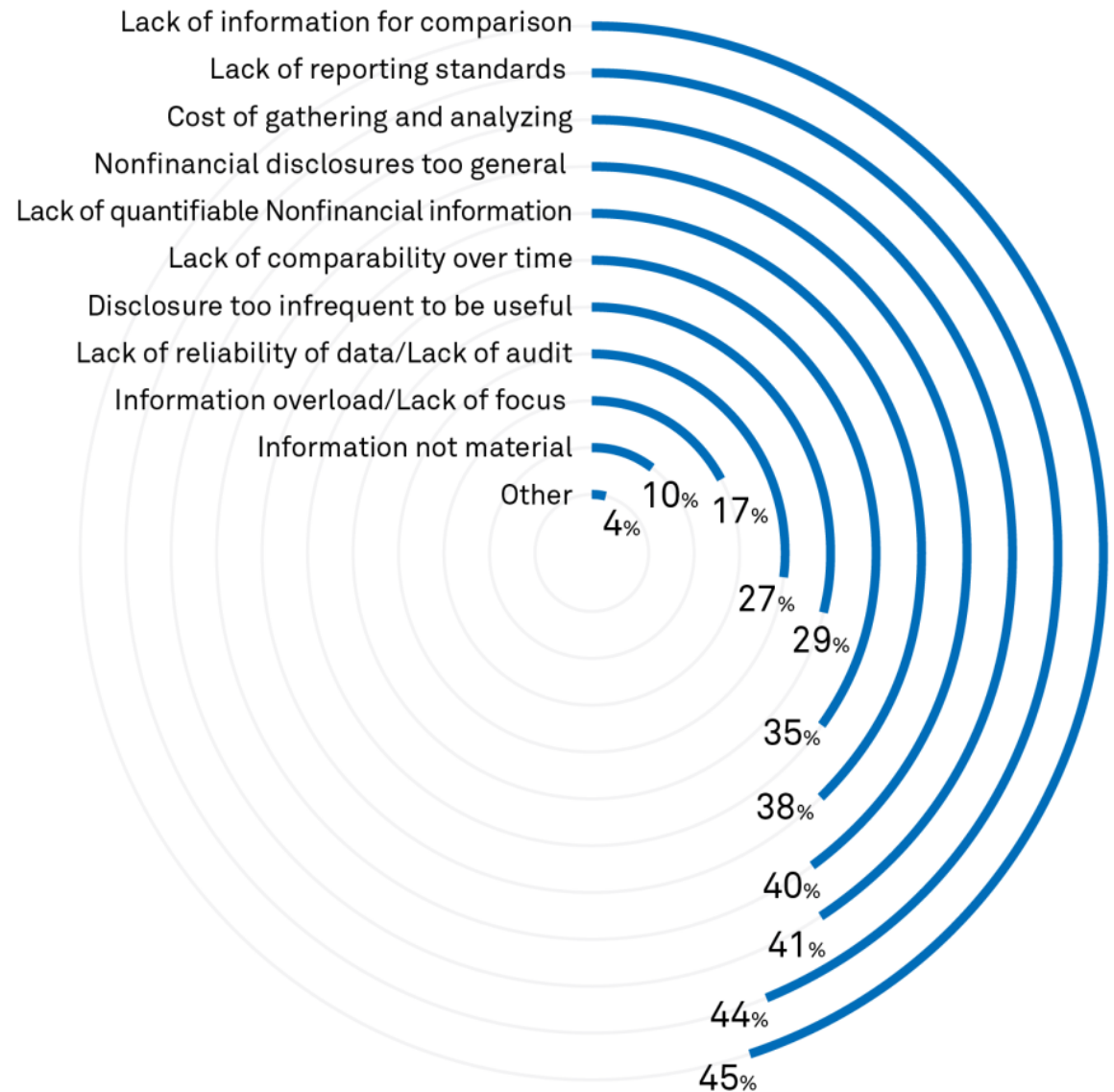


Investors seek comparability of information and standards

What factors limit your organization's ability to use Nonfinancial information in your investment decisions?

Lack of standardization complicates comparisons

It can follow that if investors don't receive information that can be used for comparison or the information they do receive is not standardized they also find there to be a cost to obtaining this information

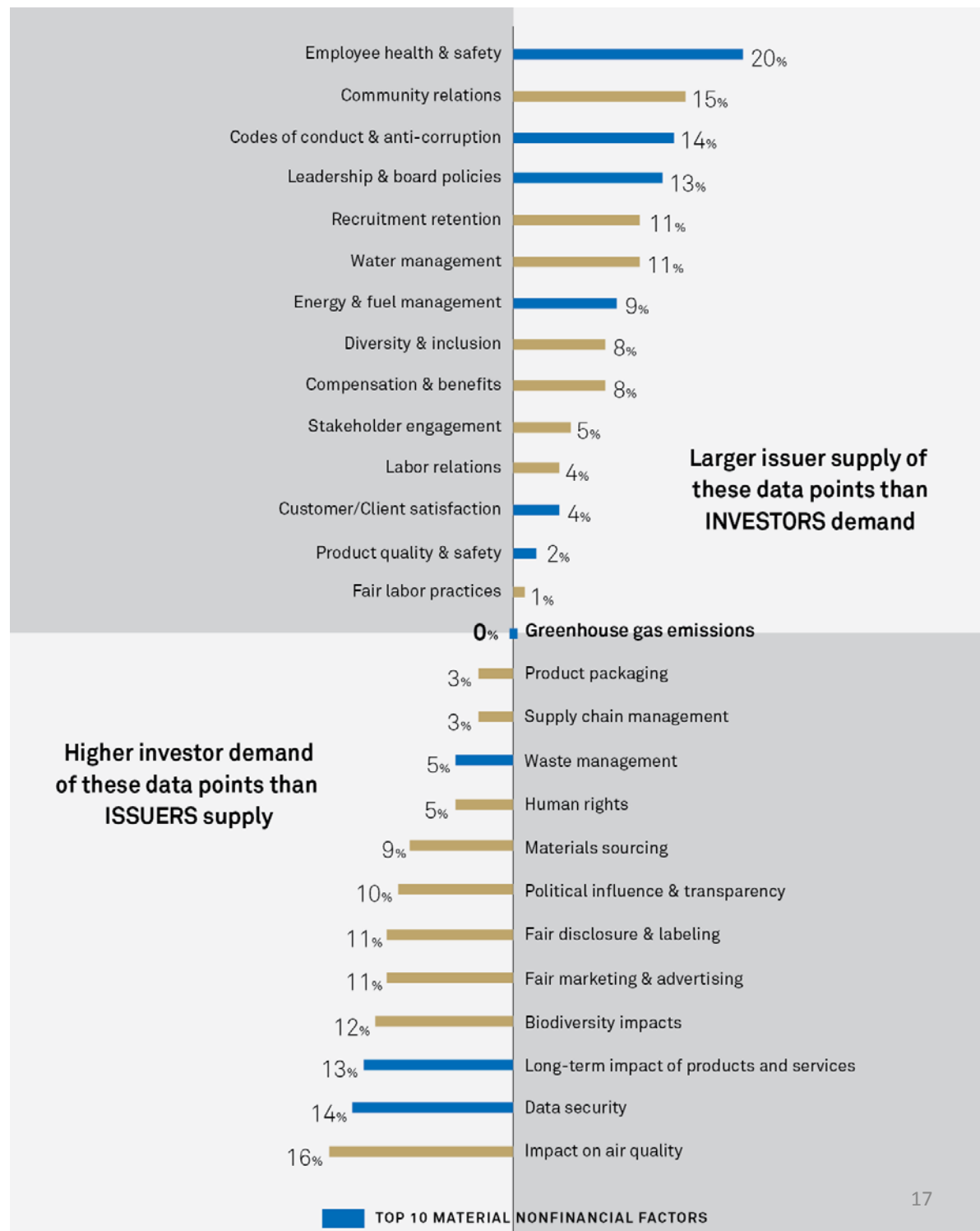


Supply and demand for Nonfinancial information is almost evenly split, with only one happy medium: Greenhouse gas emissions

For which Nonfinancial information do you require/do you supply standardized disclosures, e.g. key performance indicators (KPIs) or quantitative performance targets?

Issuers generally provide satisfactory disclosure for 7 of the 10 issues considered most material to decision-making

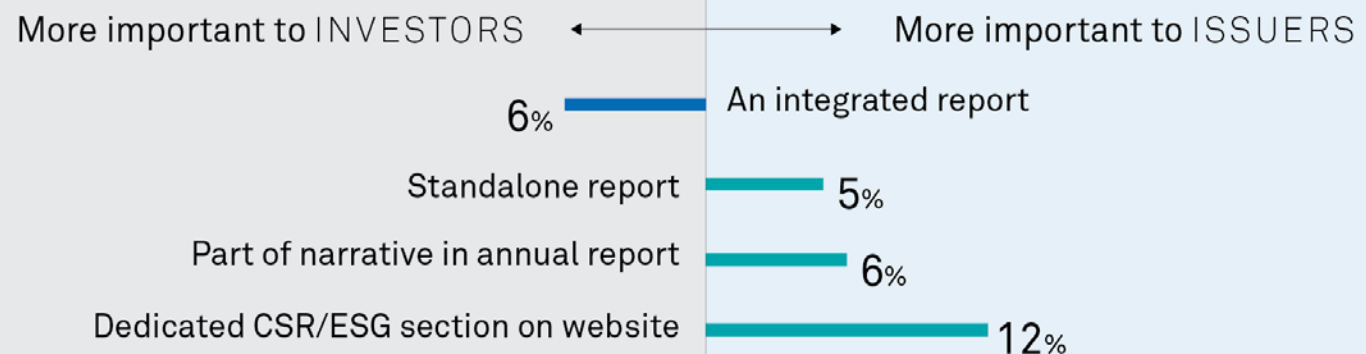
Source: BNY Mellon, Making the Match: The Market's Evolving View of the Materiality of Nonfinancial Information, pp. 19 & 20, June 2017.



Investors seem mixed in their preferences for format

42% of investors said they prefer an integrated report, but 38% preferred a CSR report and 37% prefer a dedicated website

Which outlets for a company's disclosure of Nonfinancial information do you find most useful?





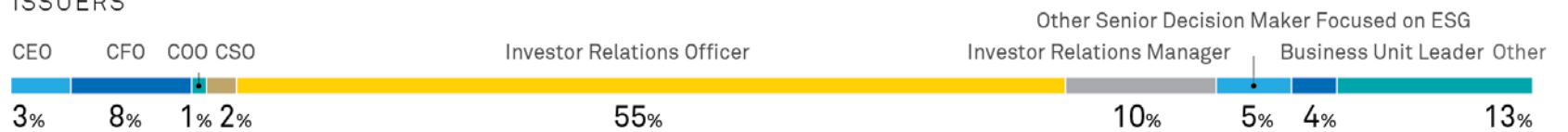
APPENDIX: METHODOLOGY DETAILS

Roles

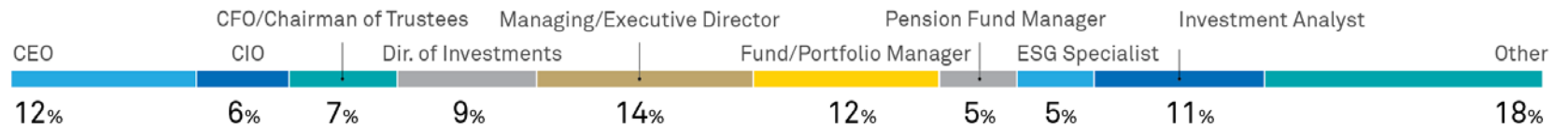
ASSET MANAGERS



ISSUERS

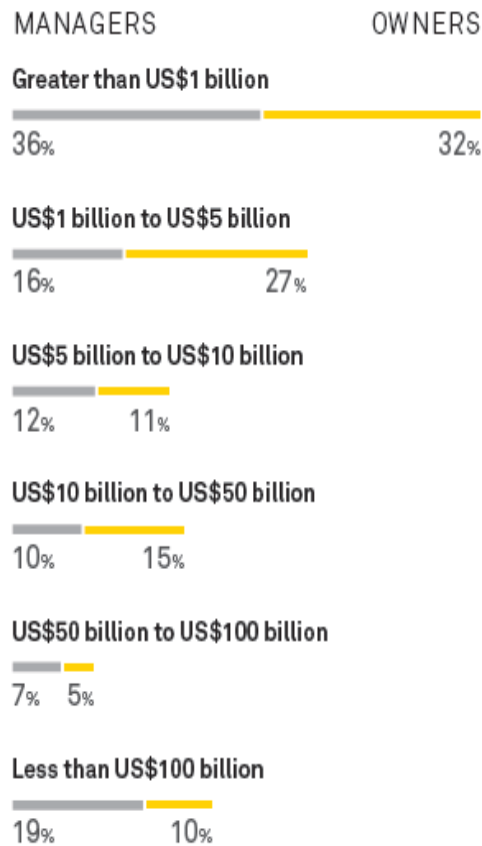


ASSET OWNERS

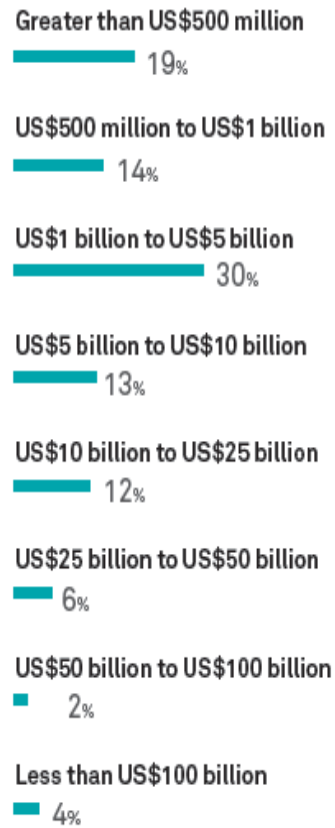


Overview of Respondent Firms

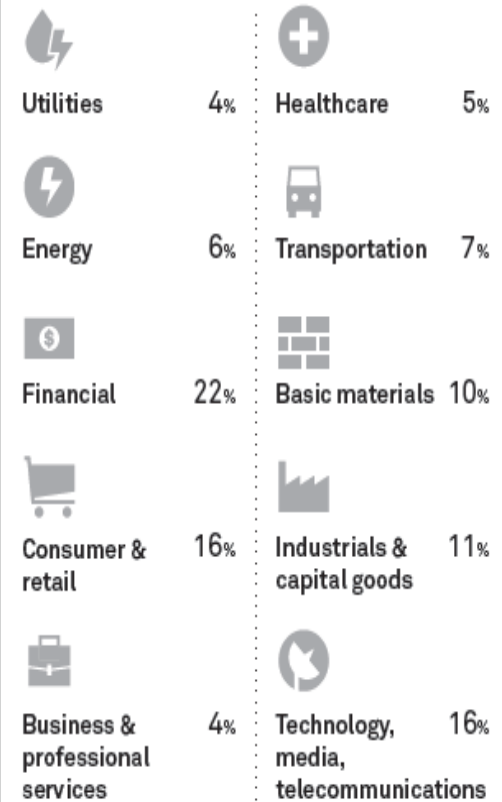
Assets under management



Issuers' annual revenue



Issuers' primary industry





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