Global Future Council on Investing
in collaboration with FCLTGlobal

Adapting Corporate Sustainable Value Creation Indicators for Investors

COMMUNITY PAPER

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Introduction

While there has been much work and discussion globally about the need for non-traditional sustainability metrics, the focus has been on corporations (issuers). But investors are recognizing that attention to sustainability topics increasingly generates important information that may not be revealed by financial-focused analysis alone – and that holds true for both companies and for investors.

At the end of 2020, Members of the World Economic Forum's Global Future Council on Investing were asked what the typical investment portfolio in 2040 would look like. Members agreed that for the "future portfolio", clearer reporting on a portfolio's long-term returns and impacts will be expected. Increasingly, asset owners are turning the sustainability reporting lens inward, evaluating how their own investment decisions stack up on non-traditional metrics, assessing holdings in public companies and in other asset classes, like direct real estate, commodities and private companies. Asset owners can use that information to inform a richer understanding of their investment impact and decide who the relevant audience for that additional analysis may be.

In the last few years, it has become well accepted that climate risk is investment risk, and environmental, social and governance (ESG) linked assets have skyrocketed.

– Assets managed with a sustainability lens have quadrupled in the past decade, with a 68% increase in the incorporation of ESG factors between 2014 and 2019.[1]

– ESG and sustainability investing as an asset class is projected by Bloomberg Intelligence to be worth more than $53 trillion by 2025.[2]

– Organizations across the investment value chain have also made net-zero pledges by 2050 or sooner, including 253 members of the MSCI All Country World Index (ACWI), 87 signatories of the Net Zero Asset Managers initiative (representing $37 trillion AUM), and 37 members of the UN's Asset Owner Alliance (representing $5.7 trillion in AUM).[3]

– Conversations about biodiversity, pay equity, and diversity and inclusion have become commonplace.

Empirical research is increasingly indicating the correlation between sustainability and financial performance – for both companies and investors.

– Eccles & Serafeim tracked corporate performance for 18 years (1993-2009) and found that high-sustainability firms outperform low-sustainability firms both in stock market and accounting performance.[4]

– A recent meta study from New York University's Stern School of Business aggregated evidence from >1,000 studies published between 2015-2020 to evaluate the link between ESG and financial performance and found that improved financial performance due to ESG becomes more marked over longer time horizons and that ESG investing appears to provide downside protection (especially during periods of social or economic crisis).[5]

Non-traditional metrics have become important to both the investment and business communities as an indicator of long-term value, and there is strong momentum for convergence among many of the sustainability disclosure and metrics frameworks.

– The World Economic Forum-led effort to measure stakeholder capitalism has aimed to create a common baseline for corporate sustainability reporting.[6]

– The International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) merged to form the Value Reporting Foundation that includes both standards and disclosures.[7]

– The convergence of these and other frameworks, such as the Task Force on Climate-related Financial Disclosure (TCFD), is gaining real traction with the announcement from the International Financial Reporting Standards (IFRS) Foundation that they would explore the establishment of a Sustainability Standards Board to support a common framework for global sustainability reporting standards.[8]

Asset owners with long-term goals, such as retirement, have long-term portfolios that respond to the emerging expectations of their constituents (governments, sponsors, beneficiaries, etc.). An increased level of analysis, including around ESG criteria, may improve understanding of the asset owners themselves, and better position today's portfolios for the future. Alongside increasing expectations for greater transparency from constituents, there are three other reasons investors are increasingly considering expanded analysis, especially on sustainability topics:

– It sets a strong example. Leading by doing is often more compelling than advocacy. For asset owners who desire a greater degree of disclosure from their portfolio companies, there is an opportunity to demonstrate leadership and alignment by holding similar standards for themselves.

– Increasing transparency can compensate for increasing allocations to illiquid or private markets, allowing for improved oversight of those assets and comfort with including them in long-term portfolios.

– For asset owners considering commitments to net-zero carbon emissions or support for the UN Sustainable Development Goals (SDGs), additional disclosure is useful for demonstrating and measuring progress towards achievement of those or similar commitments.

This document is meant to serve as a basis for analysing key aspects of long-term sustainable value creation. Extensive work has been done on non-traditional reporting by many organizations, including SASB, Global Reporting Initiative (GRI), IIRC, TCFD and the World Economic Forum, among others. The metrics that follow adapt these issuer-focused reporting frameworks for use by the investment community.

For asset owners such as pension plans, sovereign wealth funds, endowments, and foundations and commingled funds such as mutual funds or UCITS, the below list of non-traditional metrics provides a core set of analyses that could be included alongside more traditional investment reporting. Please note that these metrics are primarily for the funds and investors themselves, not for the portfolio companies they own.

Finally, it is important to note that numbers only tell part of the story when it comes to sustainable value creation, but they can be an important place to start. We hope the view provided by this type of analysis lays the foundation for a more fully informed conversation that contributes to the evolution of the capital markets in support of a sustainable future.

Notes on the approach

These suggestions are built on the set of voluntary disclosure metrics identified in the World Economic Forum's white paper *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*, published in September 2020 in collaboration with Deloitte, EY, KPMG and PwC, and on SASB's reporting framework for Asset Management and Custody Activities. It includes indicators drawn from existing disclosure frameworks (EPIC, GRI, IR, SASB, TCFD) to provide a holistic view of value for investors and serve as a baseline for standardized non-traditional disclosures.

The audience for these metrics will vary by organization; in some cases those audiences may be internal, supervisory, or represent the broader public.

The metrics have been organized into four pillars – principles of governance, planet, people and prosperity – which are aligned with the essential elements of the SDGs and with the Forum's four pillars for issuer disclosure.[9] Performance in one pillar is highly interdependent with that in the others and the corporate and investors community's performance across all of them has an important influence on the pace at which society advances towards the broader aspirations enshrined in the SDGs.

FIGURE 1 **The metrics are organized around four pillars**

Principles of Governance	Planet	People	Prosperity
The definition of governance is evolving as organizations are increasingly expected to define and embed their purpose at the centre of their business. But the principles of agency, accountability and stewardship continue to be vital for truly "good governance"	An ambition to protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can support the needs of the present and future generations.	An ambition to end poverty and hunger, in all their forms and dimensions, and to ensure that all human beings can fulfil their potential in dignity and equality and in a healthy environment.	An ambition to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social and technological progress occurs in harmony with nature.

Source: World Economic Forum and Big Four analysis. Definitions for planet, people and prosperity taken from the UN's 2030 Agenda for Sustainable Development.

TABLE 1 **Metrics and disclosures for corporate sustainable value creation (adapted for investors)**

Principles of governance			
Theme	**Core metrics and disclosures**	**Rationale**	**Sources**
Governing purpose	The fund's stated purpose	Anchoring reporting within an organization's purpose helps evaluate progress with that lens	The British Academy and Colin Mayer GRI 102-26 Embankment Project for Inclusive Capitalism (EPIC) and others
Targeted time horizon	The time frame over which the fund's stated purpose is meant to be measured and achieved	Sets appropriate parameters for performance evaluation by linking it with purpose	FCLTGlobal
Stakeholder engagement	Material issues impacting stakeholders: A list of the topics that are material to key stakeholders and the investor, how the topics were identified and how the stakeholders were engaged	Stakeholder engagement on material issues demonstrates responsiveness to stakeholder expectations, and mitigates risk	GRI 102-21, 102-43, nd 102-47
Governing body composition	Composition of the fund's highest governance body and its committees by: competencies related to investment, environmental and social topics; executive or non-executive; independence; tenure on the governance body; gender; membership of under-represented social groups; stakeholder representation	Diverse governing bodies are shown to create more long-term value	GRI 102-22, 405-1a IR 4B
Risk and opportunity oversight	Fund risk factor and opportunity disclosures that clearly identify the principal material risks and opportunities facing the fund specifically (as opposed to generic sector or market risks), the fund's appetite in respect of these risks, how these risks and opportunities have moved over time and the response to those changes; these opportunities and risks should integrate material economic, environmental and social issues, including climate change and data stewardship	Integrating risk and opportunity into investment process helps organizations more clearly identify the impact of asset allocation decisions and behaviours driving those decisions	EPIC GRI 102-15 World Economic Forum Integrated Corporate Governance IR 4D

Principles of governance

Theme	Core metrics and disclosures	Rationale	Sources
Investment management and advisory	Discussion of how ESG factors are integrated into investment analysis and decisions and how this integration intersects with fiduciary duties	Clear acknowledgement of when and how ESG factors are integrated into investment decision-making and the ways in which those factors are likely to contribute to outcomes over time helps align expectations	SASB FN0103-15
Engagement	– Description of engagement process and any related policies – Number of active/direct engagements on ESG topics with investee companies – Percentage of total proxies voted – Number and percentage of proxy proposals sponsored – Percentage of proxy votes resulting in company action on shareholder proposals	An active approach to stewardship and engagement, including participating in corporate democracy, contributes to long-term value creation	Adapted from SASB FN0103-17

Planet

Theme	Core metrics and disclosures	Rationale	Sources
Climate change and TCFD	Fully implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD); if necessary, disclose a timeline for full implementation	A measure of progress towards global climate change goals	Recommendations of the TCFD CDSB R01, R02, R03, R04 and R06 SASB 110
Path to net zero	Disclose whether the fund has set, or has committed to set, GHG emissions targets that are in line with the goals of the Paris Agreement to achieve net-zero emissions before 2050	A measure of progress towards net zero commitments	Science-Based Targets Initiative
Portfolio carbon emissions	Ratio of embedded carbon dioxide equivalent emissions of direct investments to total directly invested assets under management (reported in metric tons CO_2e/$)	Combination of climate and efficient operations	SASB FN0103-18

Planet			
Theme	**Core metrics and disclosures**	**Rationale**	**Sources**
Nature loss	Land use and ecological sensitivity: Report the number and area of sites directly owned, leased or managed in or adjacent to protected areas and/or key biodiversity areas (KBA)	Combination of climate and efficient operations	GRI 304-1
Assets managed with a sustainability lens	Percentage of assets under management by major asset class, that employ: – Integration of ESG factors – Sustainability-themed investing – Screening (exclusionary, inclusionary, or benchmarked) – Impact or community investing	Sustainably managed funds are shown to perform at least as well, if not better, than traditionally managed funds over long horizons	SASB FN0103-16

People			
Theme	**Core metrics and disclosures**	**Rationale**	**Sources**
Diversity and inclusion	Number of employees per employee category by age group, gender, and other indicators of diversity (e.g. ethnicity where applicable)	Diverse organizations create long-term value	GRI 405-1b
Pay equality	Total remuneration for each employee category by significant locations of operation by age group, gender, and other indicators of diversity (e.g. ethnicity where applicable) or other priority areas	Pay equality is a leading indicator of leadership diversity and a measure of inclusion	Adapted from GRI 405-2
Compensation principles	Discussion of variable compensation policies and practices, including any link to sustainability metrics	Variable compensation policies and practices can drive shorter- or longer-term behaviour; a regular review ensures alignment with the organization’s purpose and time horizon	SASB FN0103-01

Prosperity			
Theme	**Core metrics and disclosures**	**Rationale**	**Sources**
Performance	Performance of the fund relative to the fund's stated purpose and the timeframe over which this purpose is meant to be measured and achieved, disclosed from longest to shortest relevant reporting period	Evaluating performance on the appropriate time horizon overcomes tendencies to anchor on short-term performance, which can drive adverse selection behaviours and poorer outcomes	FCLTGlobal
Mandates	Percentage of assets under management by major asset class, that employ: – Longevity fees – Long-term performance fees – Engagement requirements	Shaping mandates with provisions specifically oriented towards long-term goals can help build stable, lasting investment partnerships and improve long-term performance	FCLTGlobal

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About the Global Future Council on Investing

The World Economic Forum's network of Global Future Councils is the world's foremost multistakeholder and interdisciplinary knowledge network dedicated to promoting innovative thinking to shape a more resilient, inclusive and sustainable future.

The network convenes more than 1,000 of the most relevant and knowledgeable thought leaders from academia, government, international organizations, business and civil society, grouped in expertise-based thematic councils. It is an invitation-only community and members are nominated for a one-year period.

The Global Future Council on Investing brings its thought leadership and insights to bear on how the investment industry is evolving to respond to a greater focus on environmental, social and governance (ESG) issues and stakeholder demands. The council explores factors shaping the investment portfolio of the future and the consequential opportunities and challenges.

Learn more about the work of the council.

Endnotes

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