

**CASE STUDY**

# Enhancing Sell-Side Research with ESG Scores

**THE CLIENT:**

A leading asset management firm in South Africa

**USERS:**

Head of sell-side research

The demand from investors for environmental, social, and governance (ESG) data and products has never been stronger.<sup>1</sup> This reflects the increasing awareness regarding the financial materiality of ESG issues and the role they can play in impacting a company's performance. In response, more sell-side research teams are combining ESG and traditional financial analyses to help deepen their insights and improve their offering for institutional investors.<sup>2</sup> The head of sell-side research at this asset management firm recognized the growing importance of including ESG information in his team's analysis, reports, and white papers and wanted to find a reputable third-party provider that could provide ESG data and analytical tools.

<sup>1</sup> "The Rising Importance of ESG Data", S&P Dow Jones Indices, March 26, 2020.

<sup>2</sup> "Sell-side research", Principles for Responsible Investment (PRI), [www.unpri.org/listed-equity/esg-integration-in-sell-side-equities-research/16.article](http://www.unpri.org/listed-equity/esg-integration-in-sell-side-equities-research/16.article), accessed July 2020.



## Pain Points

The research team wanted to be in tune with industry trends and move beyond an analysis of business fundamentals to consider a range of ESG factors in its work. Team members began to investigate third-party information providers to see if they could obtain:

- **ESG information for publicly-traded South African companies**, as well as companies with listings on both the Johannesburg and London Stock Exchanges.
- **Insights based on comprehensive ESG data sources** and a sound, easy-to-understand methodology.
- **An understanding of industry-specific ESG factors** expected to have an impact on a company's growth, profitability, capital efficiency, and risk exposure.
- **The ability to benchmark a company's ESG performance** relative to the country overall and its industry peer group.

The asset management firm was already a long-standing client of S&P Global Market Intelligence ("Market Intelligence") and had heard about the new S&P Global ESG Scores ("ESG Scores"). The team arranged a meeting with Market Intelligence to learn more about this capability.

**The research team wanted to evolve its analysis to incorporate an assessment of ESG factors in its reports and white papers, given growing investor interest in ESG issues and their impact on a company's financial performance.**



## The Solution

In response to the growing demand for robust and comprehensive ESG metrics, S&P Global made ESG Scores accessible to the global investment community in May 2020. This was in the midst of the global COVID-19 crisis that has seen large outflows from mainstream funds and inflows into sustainable investments, since global sustainability indices have outperformed traditional market benchmarks.<sup>3</sup> Market Intelligence described how the ESG Scores would enable the sell-side team to:



### Uncover ESG factors for South African firms

The ESG Scores cover 7,300 companies worldwide,<sup>4</sup> representing approximately 95% of global market capitalization. This includes many South African companies, and those with dual listings in Johannesburg and London.



### Obtain findings based on a sound methodology

ESG Scores are powered by the deep heritage of the SAM Corporate Sustainability Assessment (CSA). Established in 1999, CSA is an annual evaluation of companies' sustainability practices. Combining comprehensive data sources, sound methodology, and a sharp focus on material issues, the CSA has been identified as the “highest quality” and most “useful” ESG assessment by global sustainability professionals and investors.<sup>5</sup> The CSA has become a reference tool to gauge the financial materiality of a company's ESG performance.

<sup>3</sup> “The Evolution of Sustainable Investing Rewards”, S&P Global Market Intelligence, June 26, 2020.

<sup>4</sup> Data as of July 2020.

<sup>5</sup> “Rate the Raters 2019: Expert Survey Results” and “Rate the Raters 2020: Investor Survey and Interview Results”, SustainAbility, <https://sustainability.com/rate-the-raters/>.



### **Rely on a comprehensive set of underlying data**

ESG Scores benefit from a data collection process that engages directly with companies through the CSA to capture approximately 1,000 granular data points per company. With direct and targeted company access, the CSA includes a much broader range of sustainability topics at a much more granular level than public reporting.



### **Evaluate ESG factors at an industry level**

There are 61 industries assessed and, for each, analysts conduct a financial materiality review to identify which ESG factors have demonstrated the clearest correlations to past financial performance – and which factors are likely to have the most significant impact on a company’s business value drivers of growth, cost, or risk and, ultimately, future financial performance. Each factor is ranked on the magnitude and likelihood of its impact on the company’s business drivers and financial performance over time, and weighted accordingly in the assessment process.



### **Benchmark company ESG performance relative to others**

ESG scores can be used to benchmark a company’s ESG performance relative to an average for South Africa overall and an average for each of the industries being reviewed. In addition, it is possible to compare performance relative to other companies.

### **Introduce ESG factors into the portfolio management process**

As the sell-side team becomes more familiar with the ESG Scores, they would have the ability to integrate them with other Market Intelligence information currently being used throughout the firm. In particular, the ESG Scores could be used in the analysis of company-specific credit risk to help enhance the firm’s investment strategies.



## Key Benefits

Members of the research team thought the Market Intelligence offering met their list of requirements, and decided to subscribe to ESG Scores for South Africa. They are seeing many benefits, including the ability to:

- **Stay in front of growing investor demand** for ESG information.
- **Discover multiple layers of ESG insight** with a methodology that assesses a wide range of ESG factors expected to have an impact on a company's performance.
- **Rank companies** based on their specific ESG Score and look at their performance relative to country and industry averages.
- **Add new perspectives to reports and white papers** by including an ESG lens to help institutional investors make better informed investment decisions.
- **Enhance analysis in other areas of the firm** by eventually incorporating ESG factors in credit risk analysis and investment strategies.

*Learn more about S&P Global ESG Scores [www.spglobal.com/marketintelligence/esg](http://www.spglobal.com/marketintelligence/esg)*

## Contact Us

### Asia-Pacific

+852-2533-3565

### Europe, Middle East & Africa

+44-207-176-1234

### The Americas

+1 877 863 1306

Copyright © 2020 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON “AS IS” BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Global Market Intelligence’s opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge) and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).