EXECUTIVE SUMMARY
GLOBAL INVESTOR-DIRECTOR SURVEY ON CLIMATE RISK MANAGEMENT

Introduction

Institutional investors are increasingly focused on “extra-financial performance” as a predictor of long-term success of companies. Topics like climate change, CO2 emissions reduction, respect for the environment, labour rights, and diversity are increasingly factored into investment decisions.

Investors, directors and company management need to work together to leverage the new regulatory environment, address unprecedented environmental and social challenges, and promote disruptive technological innovation to strengthen business models and improve performance.

About the Survey

This global survey, conducted by a team of academics from the Millstein Center for Global Markets and Corporate Ownership at Columbia Law School and Environmental, Social and Governance experts at LeaderXXchange®, seeks to understand how - if at all - institutional investors and board directors incorporate climate-related issues in their investment decision making and their oversight responsibilities, respectively. The survey targets both directors and investors with two tracks aggregated in a single survey.

One of our goals in conducting the survey was to understand and assess how ESG issues impact investment and boardroom decisions. The survey collected data on a broad range of topics, including demographic information of respondents and their views on:

- materiality of climate change issues
- extent of training on climate change issues
- disclosure of climate risks
- climate risk management and board oversight
- engagement and proxy voting

The survey was conducted over a period of three months in Summer 2019, during which the Millstein Center and LeaderXXchange® each contacted relevant organizations within their networks to help disseminate the survey to directors and investors globally. Both organizations also invited individual investors and directors within their networks to anonymously complete the survey. Most respondents were based in Europe and North America.

Demographics of Survey Respondents

- There were more than 130 respondents: approximately 40% directors and 60% investors from Europe (including UK) and North America.
- A high level of disclosure by respondents provides excellent demographic insight of survey respondents: over 90% of respondents shared their age and gender. The survey response rate achieves near gender parity with 53% of female respondents, and a broad age distribution with 19% of respondents under 35 years of age, 34% of respondents between 35-50 years of age, 33% of respondents between 50-65 years of age and 11% older than 65 year of age.
- A broad range of investor roles are represented in the survey respondents: from analysts, ESG specialists, engagement and stewardship specialists and portfolio managers to Chief Investment Officers.
- There is also a broad range of director roles and committees represented in the survey respondents: from Board Chairs and Lead Independent Directors, to members of the audit, risk, compensation, nominating and/or governance and CSR/sustainability committees.

Key Findings

Views of Investors and Directors on the Materiality of Climate Change Issues

— Responses suggest both investors and directors believe climate change issues are material, with more than 60% of directors and 70% of investors indicating that climate risk is already impacting their business today.

— According to survey respondents, the main reasons for incorporating climate risks into strategy and investment decision-making are: (i) it helps identify business and investment opportunities, (ii) it helps manage risk, and (iii) it is the right thing to do.

Views of Investors and Directors on Training on Climate Change Issues

— Both investors and directors have developed their current knowledge and expertise on climate change using various sources; mainly think tank publications, following current events in the media and company CSR reports. However, investors appear to turn to sell-side reports and ESG rating agencies more than directors as a source of information.

— A majority of respondents believes that investors and directors should obtain their knowledge and expertise through both internal and external training.

Views of Investors and Directors on Climate Disclosure

— Investors seem to have higher expectations on climate-related disclosure versus directors.

— Investor respondents appear less receptive to boilerplate climate change disclosure, preferring that companies explain why climate change is material and how it affects their business operations, quantify its impacts, and disclose specific targets they set themselves.

— The TCFD (Task Force on Climate-related Financial Disclosures) recommendations are gaining traction among investors: more than 50% of investor respondents in both North America and Europe are already asking companies to follow them.

Views of Directors on Climate Risk Management and Board Oversight

— Climate appears to be an important topic for boards as well with more than 40% of director respondents indicating climate-related topics are discussed annually by the Board while 30% of directors indicated it was discussed quarterly. Moreover, nearly 30% of director respondents believe boards need to have a non-executive director with climate expertise.

— Our survey supports LeaderXXchange® prior findings that the board receives climate-related information primarily from the head of CSR/Sustainability, to a lesser extent from the General Counsel/Corporate Secretary, and almost never from Investor Relations. Approximately a quarter of directors indicated no one reports to the board on climate-related topics.

— According to director respondents, investor engagement on climate-related issues takes place primarily at the CEO level and Investor Relations level. This finding is also in line with prior LeaderXXchange® findings showing that engagement does not take place on CFO level. More than 20% of directors indicate that engagement also takes place at the board level, mainly with the lead independent director.

Views of Investors on Engagement & Proxy Voting

— The survey suggests a shift in investor interest on climate topics. Investor respondents said that engagement with companies on climate topics is increasingly done not only by ESG or investor engagement specialists, but also by mainstream portfolio managers and analysts.

— Even the Chief Investment Officers of asset managers and asset owners (such as pension funds) have begun to engage companies, suggesting the importance of climate topic for the investment organisation.

— Investor respondents communicate the importance of climate-risk issues with their portfolio companies in various ways, mainly by (i) engaging with management, (ii) submitting or supporting shareholder proposals and/or voting against management and (iii) engaging board directors in a dialogue. Almost 65% of investor respondents indicated they engaged directly with board directors.

Variation by Age and Gender

- Our survey suggests the interest in climate-related issues is correlated to age: the younger the respondent, the greater the interest in climate-related issues.
- Our survey results support other academic research studies' findings that suggest women are more engaged on climate-related issues than men. However, the gender gap narrows as respondents get younger, particularly under the age of 35.
- The younger the directors, the higher their expectations in terms of corporate disclosure on climate-related issues according to our survey findings. They appear to prefer standardized and mandatory reporting on climate, have climate risks and opportunities incorporated in an integrated report, and believe that companies should conduct a climate scenario analysis.
- Our survey also identified a gender gap in terms of corporate disclosure on climate-related issues, with female directors expressing higher expectations against their male peers.
- On the investor side, however, the gender gap appears to be smaller or even nonexistent. One potential explanation is the relatively larger proportion of young male respondents among investors who are more engaged in climate-related issues.

Variation by Region

- Our survey suggests the interest in climate-related issues is dependent on the region. Investors in Europe seem to have a higher interest in climate-related issues.
- When comparing the findings on regional level, we find that European investors have higher expectations than North American investors in terms of corporate disclosure on climate-related issues. They appear to prefer standardized and mandatory reporting on climate, have climate risks and opportunities incorporated in an integrated report, and believe that companies should conduct a climate scenario analysis.

Conclusion

This global survey of directors and investors by LeaderXXchange® and the Millstein Center supports prior research findings by LeaderXXchange® and others that there are several demographic and regional differences in directors' and investors' expectations around climate-related issues and disclosure. Generally speaking, younger respondents, European respondents, and female respondents appear to have greater interest in climate issues and/or expectations for corporate disclosure. The survey also provides insights into how boards and companies are engaging on climate issues internally and externally. We believe that these findings deepen our understanding of how directors and investors take climate-related issues into account in their boardroom and investment decision-making, respectively, and how their views may differ across demographic and regional groups.

Note: *The results presented above represent a selection of findings based on observational survey data. They do not represent a comprehensive discussion of the survey results, and it can also not be excluded that they are at least partly the result of decisions by LeaderXXchange® and the Millstein Center in designing and evaluating the survey. Lastly, due to the open nature of the survey, the representativeness of the sample of survey participants is not guaranteed.*

About the Conductors of the Survey

The **Ira. M. Millstein Center for Global Markets and Corporate Ownership, Columbia Law School in New York** brings world-class scholarship, research, and academic rigor to the task of restoring and strengthening long-term financing of public corporations through research.

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LeaderXXchange® is a purpose-driven organization that advises and promotes diversity and sustainability in governance, leadership & investment. It focuses on understanding market trends and anticipating investor needs to develop award-winning investment and strategic solutions designed for impact.

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