CASE STUDY

Enhancing Sell-Side Research with ESG Scores

THE CLIENT:
A leading asset management firm in South Africa

The demand from investors for environmental, social, and governance (ESG) data and products has never been stronger.¹ 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.² 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.

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 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 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 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.³ 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,⁴ 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.⁵ The CSA has become a reference tool to gauge the financial materiality of a company’s ESG performance.

⁴ Data as of July 2020.
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)
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