Independent Research in Responsible Investment

How to influence investors on sustainability issues

38 observations for independent sustainable investment research providers

Discussion draft

For issue to senior executives at 'for-impact', 'grant-funded' and other independent sustainable investment research providers

For their comments and as a basis for short interviews to capture their ideas and experiences

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Author: SRI-Connect

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How to influence investors on sustainability issues

Independent research has a vital role to play in sustainable investment.

At its best, it introduces depth and specialist analysis to the investment debate thereby challenging other providers in the market ('ESG agencies', sell-side brokers, credit ratings agencies and data providers) to do the same. This way it drives quality and integrity into sustainable investment.

Too often, however, independent providers fail to deliver on the quality of their underlying ideas because they do not apply simple practices for the effective generation and distribution of investment research.

In this briefing note, we collect 38 recommendations on good practices – based on the experience of the authors and interviewees. We also list some of the tools that are currently available to support independent research providers.

Ultimately, we aim to empower independent sustainable investment research providers and to support their efforts to engage 'mainstream' investors in allocating capital to deliver sustainable outcomes.

Primarily for investment influencers

This briefing note is written for anyone from an independent provider that writes research on sustainability factors that they want investors to read and act on. It is primarily directed at research providers that aim to influence capital allocation (investment) decisions rather than at those that focus on 'engagement' activity.

However, as most effective engagement is predicated upon a clear line-of-sight to investment relevance, many of the ideas may also be useful for those targeting or organising engagement activity.

The ideas in the note are of less relevance for engagement activity that is based primarily on moral considerations.

What we want you to do

- If you agree with what we have written, please adopt any ideas that you find helpful.
- If you disagree, please get in touch directly or – better still – debate the point with us on social media
- If you think we have missed anything, contact us. We are planning to write more on this subject and hope to capture a wide range of ideas & experiences

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Reports are transactional; influence is relationship-based

Influence within investment decision-making is typically achieved through a balance of:

- Insightful analysis (reports)
- Relationships between analysts and investors
- Support & services

Ultimately research providers achieve influence with investors (and thereby affect investment decision-making) by developing relationships over time that deliver a stream of insight, reliable supportive analysis and ancillary services. Neither of the three can operate without the others (unless your research is so dazzlingly brilliant and predictive that everything else pales by comparison).

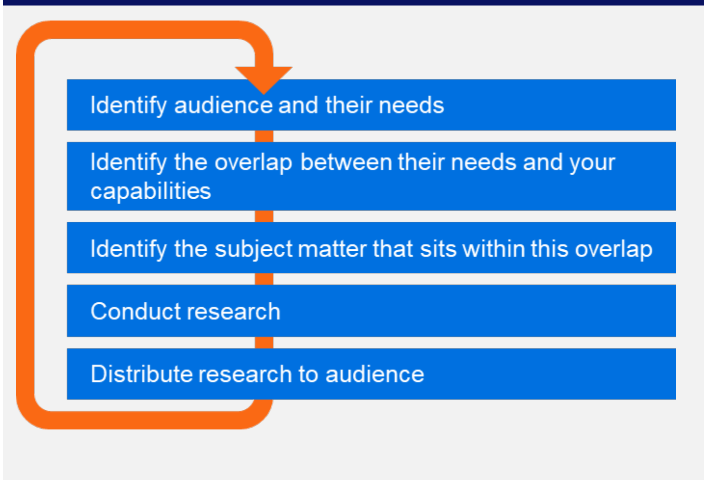
Also, 'knowing your client' and understanding their needs is as important in investment research provision as it is in the provision of any product or service in any commercial endeavour.

For this reason, research providers that want to be 'in the business of influence' are likely to be most effective if they think about their research in a circular fashion and view each research piece as contributing to the development of an ongoing relationship of trust with asset managers rather than in a linear fashion where each report is an end in itself.

Linear approaches to research report production

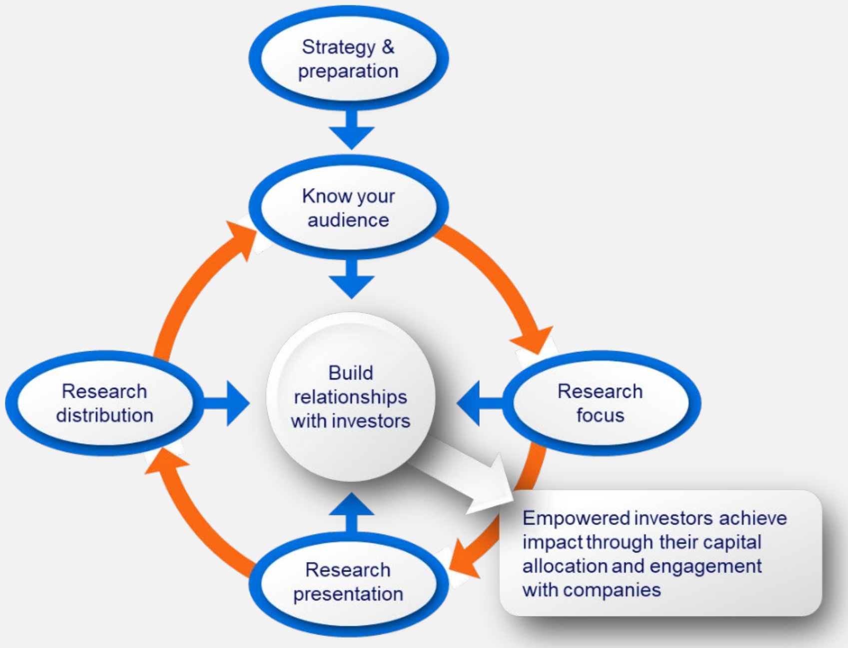
How to produce research reports (badly)

How to produce research reports (better)



Circular approach to research report production

How to achieve influence (best)



CRM system or investor advisory group or ad hoc mailing list?

Tangibly, the client relationship management set-up of any research provider gives the best clue as to the level of influence that they are likely to achieve:

- Those that operate comprehensive CRM systems effectively are set-up to develop relationships and achieve ongoing influence with investors
- Those that have investor advisory panels and maintained mailing lists are likely to achieve report-based impact – which may, however, be constrained by the breadth of experience of the advisory group
- Those that develop ad hoc mailing lists for each report published are unlikely to have sustained impact

Mailing lists set to 'transmit'; CRMs set to 'transmit and receive'

Mailing lists, by definition, are typically used to send out everything … to everyone … always. They can be designed to categorise and segment users but are rarely used to gather feedback.

By contrast, CRMs focus on recording needs and contact, segmenting based on interests and focus, capturing feedback from clients (in this case investors) as well as managing distribution and outbound contact. As their name states, they enable a research provider to build a relationship with an investor over time that is based on the specific needs and interests of that investor. Cloud-based CRM systems are now affordable (even within the budgets of grant-funding). However, they do require commitment. If they are not 'bought into' by everyone they don't work.

Illustration: We consider every reader of this note as a 'client' of ours. We never expect you to pay us any money and we may not even know who you are. Nonetheless, we consider you a 'client' because we aim to help and to influence you.

Strategy & Preparation

Don’t panic!

Many independent research providers are concerned about talking to investors. This may be for several reasons:

- they feel that they don’t understand the world of finance
- they believe they need to speak ‘investor’ language when talking to investors
- they don’t know how to communicate their key messages to an investor audience
- they aren’t sure what is and isn’t important to an investor

It may be helpful to understand that..

… investors DO:

- Value independent research for the specialist knowledge, independence and different perspectives that it delivers. (… and they don't get much of this from 'mainstream' providers)
- Need you to apply your expertise to factors that they can engage with (see 'Target specific value drivers' below)
- Care about many sustainability issues, both personally and professionally

… investors DON'T

- Need you to be experts on CDSs, mezzanine finance or short squeezes – that's what they are paid for
- Need you to develop investor-type techniques or metrics yourself
- Generally, have a remit to engage with issues that have no financial consequences

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- *Remember: Investment is a very simple business. If your research idea can't be communicated in terms that your grandfather or undergraduate daughter would understand, then the research idea is probably nonsense.*

Determine your objectives and map your route to influence

Before embarking upon research, just check:

Are you really seeking to inform and elucidate? If so, research is your best way forward. If research is simply a cover for another objective (change in corporate practice, for example), consider whether it is really the most efficient way to achieve this. There is now massive oversupply of sustainable investment research and before embarking on a resource intensive process, just be sure that it's the most efficient way to achieve your ends.

Much has changed since investors first started raising sustainability issues with companies. The 'shock value' has disappeared but the weight of capital influence has increased.

- In some cases, independently-produced research for individual investors will be a good route to influence
- In other cases, the broader investment debate might be a better target – in which case, research partnerships with incumbent research or data providers might be a more effective way forward
    - This may also have leverage a heavyweight financial brand behind your idea
- In many cases, a direct approach to the companies of interest will be most efficient
    - Sometimes, reversing the process by forming partnerships with the companies of interest to educate investors might have greater impact.

Decide which sustainable investment strategy your research aims to support

Sustainable investors deploy two (simplistically) strategies that may be of interest to 'for impact' research providers:

- Capital allocation – whereby they investors to adjust the level of their holding in a company based on the sustainability and financial prospects of the company
- Engagement – whereby investors meet with companies and attempt to influence company strategy on specific sustainability issues

Both strategies can influence companies and both strategies require research backing.

Research for engagement

From the perspective of research, 'engagement' can usefully be divided into:

- Engagement that is predicated upon financial relevance
- Engagement that is undertaken from a moral basis

Both engagement strategies are legitimate but the research required for them is fundamentally different.

- The research required for 'financially-relevant-engagement' strategies is broadly the same as that required for 'capital allocation' strategies (although the time periods may be longer)
- The research required for morally-driven engagement has different requirements

For clarity of message, research providers must determine which strategy they are targeting.

- Where research targets capital allocation or financially-relevant engagement, the research must conclude by establishing a clear line-of-sight between the sustainability issue in question and one of the key value drivers of the company or sector being studied
- Where research targets morally-driven-engagement, a clear-line-of-sight should be established between the research recommendation and the environmental / social impact desired

Which has more impact: capital allocation or engagement

There are two views on this. Simplistically:

- Some argue that companies only respond to investors that credibly offer the promise / threat of increased or reduced investment.
    - Self-evidently, the reasons for such capital allocation action need to be communicated for them to have any effect
    - Typically, however, this can be communicated by the investor (or deduced by the company) through the normal course of their interaction with the investor
- Others argue that companies respond to investor engagement even where there is no realistic prospect of investment or divestment.
    - Through this approach investors rely on their ability to vote at a company's AGM as their primary point of influence

(Note: A considerable amount of engagement occurs in a grey space between the two – where there is an implied but not real promise / threat of investment action. This approach, however, is vulnerable to an improved understanding of sustainable investment by companies.)

Both sides can point to individual cases where their approach has been successful and research providers should form their own view on which they believe to be more effective.

Consider the company perspective

If influencing company practice is ultimately the research provider's objectives and investors are simply the channel through which they aim to hit this target, providers should consider how companies' perspectives on sustainable investors has changed over recent years. Specifically, they should note that:

- Companies have become much more selective about which investor-related activity they participate in
- Companies increasingly prioritise 'mainstream' investor engagement on sustainability alongside (or even above) specialist sustainable investor engagement (now that such 'mainstream' interest exists)
- The strategy of requesting data as a tool for achieving change in business sustainability practice has become largely redundant as companies have wised up to the extent to which such data is actually used (i.e. not used).
    - That said, climate strategy / net zero pathway reporting still appears to achieve traction

Understand the dynamics of influence within individual investment firms

At some firms, investment decisions are analyst-led; at others, they are portfolio manager-led; at some, decisions are process-driven; at others, considerable autonomy is given to the judgement calls of individuals. The more a research provider understands about the different decision-making processes within investment institutions, the better prepared they will be to achieve influence.

Then there is the dynamic between sustainable investment analysts and 'mainstream' investors to be considered. In some cases, the relationships are strong; in other cases, these relationships are provisional or non-existent.

Something of a myth perpetuates that sustainable investment research providers should 'target mainstream investors directly'. The reality is that the email in-boxes and voicemail systems of such 'mainstream' investors are full of messages from people trying to influence them. The core skill of these individuals, therefore, is knowing how to ignore most of these incoming attempts to influence.

Accordingly, most independent research providers conclude that 'having a person on the inside (in the shape of an SRI/ESG specialist analyst) is a valuable and determine that cultivating the relationship with that person and enabling them to 'cross the floor' to speak on your behalf to their 'mainstream' analyst or PM colleague should be a priority.

While the 'mainstream' investor should remain the target, the SRI specialist typically remains the best route to that target.

Understand the basics of valuation

Although the investment community dresses its activity up in jargon and impenetrable acronyms, valuing companies is actually a very simple business. All investors ask themselves is:

- Is this company going to be more profitable (higher revenues or lower costs) than other investors expect it to be?

So, for sustainable investment research analysts, the question becomes:

- Might the sustainability factors that I understand make this company more profitable than the market (investors in general) expect it to be?

Support available: Sustainable Investment Training Associates provides a practical foundation course in Financial Analysis, Modelling & Valuation – set within the context of sustainability issues

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Decide whether to target investors' reputation or not

- Some 'for impact' research providers produce research for investors … but never comment on the investors' use of that research or investment decision-making
  - Advantages: This generates more trust from investors
  - Disadvantages: There is no leverage if the investor chooses to ignore the research
- Other research providers comment openly (and sometimes aggressively) about the positioning of investors
  - Advantages: This can drive more action by investors
  - Disadvantages: They are less likely to be trusted by investors; a research provider is more likely to be held at arms-length; it is time-consuming to develop the necessary stakeholder network for challenges to asset managers to be meaningfully threatening
- A small number of research providers manage to do both successfully and provide research for investors while also holding those same investors to account
  - Challenges: Maintaining the balance

Exploit your best assets; don't expose your weaknesses

Investors are interested in hearing from specialist research houses, from think tanks and from NGOs because they know things that 'mainstream' investors and analysts don't, because they have studied particular subjects in considerable depth, and because they bring different perspectives to the market.

With this in mind, consider which of your assets and capabilities are <u>most different from</u> what investors typically encounter and deliver this to them. Play to your strengths – to your knowledge and to your insights about your specialist subject. Don't pretend to understand the world of finance unless you actually do.

Creating trust is hugely important if you want investors to risk their money based on your idea or to risk their relationship with a company by raising issues that you propose to them. So, be honest with them. When you don't know the answer to something, say so. (Unanswered questions are typically more interesting to investors than answers … because that's where the value lies). If you have a specific agenda, let them know. They will probably work it out anyway.

Note: For 20 years, sustainable investment teams have had to 'fake it until we make it'. We have now made it. The fundamental significance of sustainability issues is now well recognised. To progress further, we must now stop 'faking it'. We can stop being advocates and start being analysts.

Develop and celebrate your own team

ABC Capital is rarely influenced by XYZ Investment Research Inc.

Maria at ABC Capital is influenced by James at XYZ Investment Research Inc.

People engage and convince people.

So, it is important to know the names of the analysts and investors that you are targeting. It is also important that they know the names, track records and reputations of your analysts and that their research specialisms are recognised in the market. So, get to work building these.

In 'sell-side' research, this manifests in the concept of the 'analyst franchise' whereby analysts develop their own brand in the market that extends beyond the brand of their employer. They carry this reputation and track record from employer to employer. The independent research sector could use 'rainmaker' analysts of this sort. Grow some 'rainmakers' in your team.

Support available: Analysts can update their personal profiles on SRI-Connect to build their personal visibility in the market

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Know Your Audience

Understand the research needs of different investment strategies

Three major investment strategies define what type of sustainable investment information investors need and how they use it:

Fundamental active investors (of which there are many in sustainable investment)

- Fundamental active investors select stocks to invest in based on analysis of the financial fundamentals of companies (and forecasts of those fundamentals into the future)
- To support this, they need sustainable investment research that informs their analysis – which can either be about the exposure and management practices of the companies concerned or about the market or regulatory environment that the companies face
- Additionally, fundamental active investors may also use sustainable investment research for 'engagement' purposes

Passive investors (of which there are a few very large players in sustainable investment)

- Passive investors invest in an index of companies and weight their holdings in these companies in the same proportion as the market cap weightings of those companies in the underlying index (such as the S&P 500 or the FTSE 100
- As they do not make active decisions about which stocks to buy or how much money to invest in each stock, passive investors can only make use of sustainable investment research or data if it:
    - Enables them to create new indices that they can turn into funds and market to their clients
        - Fund concepts may be based around exclusions (e.g. ex-tobacco), weighting (e.g. carbon-weighted) or inclusion (e.g. renewable energy)
        - Fund concepts need to be translatable into rules that govern the basis for stock inclusion, exclusion or weighting
        - Passive investors are therefore attracted to simple communicable datasets that can be turned into rules-based funds
    - Enables them to 'engage' with companies around issues that may lead to a vote at the AGM. Unlike fundamental active investors, passive investors cannot wield the promise / threat of investing more / reducing investment (unless a company's action causes it to cross the investment rule that has been set for the index)

Quants investors (of which there are very few in sustainable investment)

- Quants investors use statistical techniques to predict future stock price moves. They do not seek to form a view on the business activities or strategy of a company – beyond those aspects that can be distilled into statistics and compared with other companies / time periods etc.
- They are attracted to all types of data – in case they might prove useful as lead indicators for investment performance. As a result they are attracted to comparable, quantitative datasets that lend themselves to statistical analysis
- In theory, quants investors can engage on sustainability issues. In practice, they are only likely to do so with a view to improving the quality of data that they receive

Which strategies influence companies most?

Fundamental active investors have, by far, the most influence over companies – because they are the marginal buyers / sellers of companies and therefore are the ones that affect the share price of companies. They are also the ones that companies can influence through communication of their exposures and management practices.

Passive investors can have influence through their engagement activities – primarily when such engagement might lead to a vote at the AGM (when their often high percentage ownership of a company's shares makes them influential). It is for this reason that the actual voting of passive investors is closely watched. Passive investors that do not deploy their vote publicly on sustainability matters fatally undermine the credibility of any private 'engagement' efforts.

Quants-orientated investors rarely seek and are unlikely to have significant influence with companies.

This naturally raises a question as to why there is so much focus on producing comparable, granular datasets in sustainable investment when these are of use to so few investors (only quants investors) and that investor type neither seeks nor achieves influence with companies.

We not know the answer to this question.

Know which firm owns each company … and how they own that company

Before presenting sustainable investment research to asset managers on particular companies, research providers should:

1. **Work out which asset managers own the company that their research covers**. This information can be found from subscription services such as those provided to investors by Bloomberg and Refinitiv. Some basic data can also be found from Google Finance and from company's annual reports (the largest investors only).
2. **Understand how relevant that asset manager is to the company concerned**. Companies will typically pay considerable attention to anything raised by any of their 20 largest active investors but start to lose interest below the top 40. However, see Point 6 below.
3. **Understand how important exposure to the company stock is to that asset manager**. Asset managers are more likely to be engaged by research on companies to which they have significant financial exposure. For example, BlackRock is the largest investor in the world and manages almost $9 trillion of money. They own a few percent of almost every listed company and are one of the largest public investors in many of them. While this means that BlackRock's holding of 3% in a small company makes BlackRock very important to that small company, it doesn't mean that the small company is significant to Blackrock financially. In many cases, a company could disappear altogether and be lost in the noise for the very largest asset managers.
4. **Understand the type of investment portfolios that the company is held within**. As discussed above, where a company is held within an actively-managed portfolio, this means that the portfolio manager has chosen the company through a process of analysis. When it is held within a passive portfolio, it has not been actively chosen by the portfolio manager but belongs in the portfolio in order to track a specific index. The level of likely investor interest will differ accordingly.
5. **Recognise that an asset manager's holding in a company is rarely controlled by one individual** or one fund managed by that organisation. There will typically be multiple decision makers across a variety of funds with different remits. Indeed, there will often be – within the same institution – some portfolios that have an overweight position in a company and others that have an underweight (or no) position in that company. So, there isn't 'one person' to direct your research at.
6. **Understand how influential the investor is in the wider market.** It is not always the largest investors that have most influence. The Church of England Pension Funds have had tremendous influence with companies over a number of years – while managing less than $10bn (about 0.1% of BlackRock's assets). They have achieved this by leading shareholder campaigns that engage other larger investors in voting their shares in support of resolutions at AGMs.

Understand each investor's sustainability focus

It helps to know which sustainability issues each individual investment firm is most interested in and to target your research accordingly.

Issues of interest to all investors – corporate governance and climate change

Most investors have a longstanding interest in corporate governance.

More recently (but rapidly and significantly) most investors have developed an interest in climate change and treat it as their highest sustainable investment priority. Research on this subject is therefore likely to be of universal interest. However, different investors approach the issue from different perspectives (some engaging around net zero commitments; others seeking investment opportunities in renewable energy; some expressing their interest via an interest in deforestation, others via interests in carbon prices etc).

Self-evidently, each investor should be approached according to the approach that most resonates with them.

Issues of interest to specific investment firms

Beyond the issues of universal interest, individual investment firms develop specific areas of interest – such as: natural capital, water availability, gender and racial equality, working conditions or many other issues.

Such areas of specialist interest typically derive from:

- Particular specialism of a team member
- A desire to differentiate in the market
- A value creation perspective
- Particular client interest

Self-evidently, understanding and targeting the particular interests of individual investors increases the likelihood of your research being positively received.

Targeting investors interested in a specific subject also opens your research to leverage as the ideas permeate from that investor to their other research providers, their clients, the companies that they are in contact with and to other investors.

Conversely, targeting investors that have not expressed an active interest in your chosen issue will be harder work.

Support: To identify which investors are most interested in specific topics, search SRI-Connect's Market Buzz by 'sustainability issue' to find which investors have published recently on any given topic

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Know the responsibilities of named analysts

Having identified the potential interest of a given investment firm in any given research area, the next step is to identify the individual analysts at that firm that 'cover' the issue.

- Most asset managers allocate responsibilities within their team by sector (because that is how 'mainstream' investment analysts operate)
- Some deploy a matrix structure (whereby analysts are nominated as 'issue leads' above and beyond their sector focus)
- A few investors (typically those primarily-focused on morally-driven engagement) will organize responsibilities on an issue-by-issue basis

Again, websites can help in identifying analysts responsible for individual issues (although 'thought leadership' pieces may, of course, be published in the CEO, CIO or Head of ESG's name rather than that of the individual analyst.

Support: Searching the SRI-Connect Directory can identify analysts at investment firms responsible for specific interests

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Align with investment themes

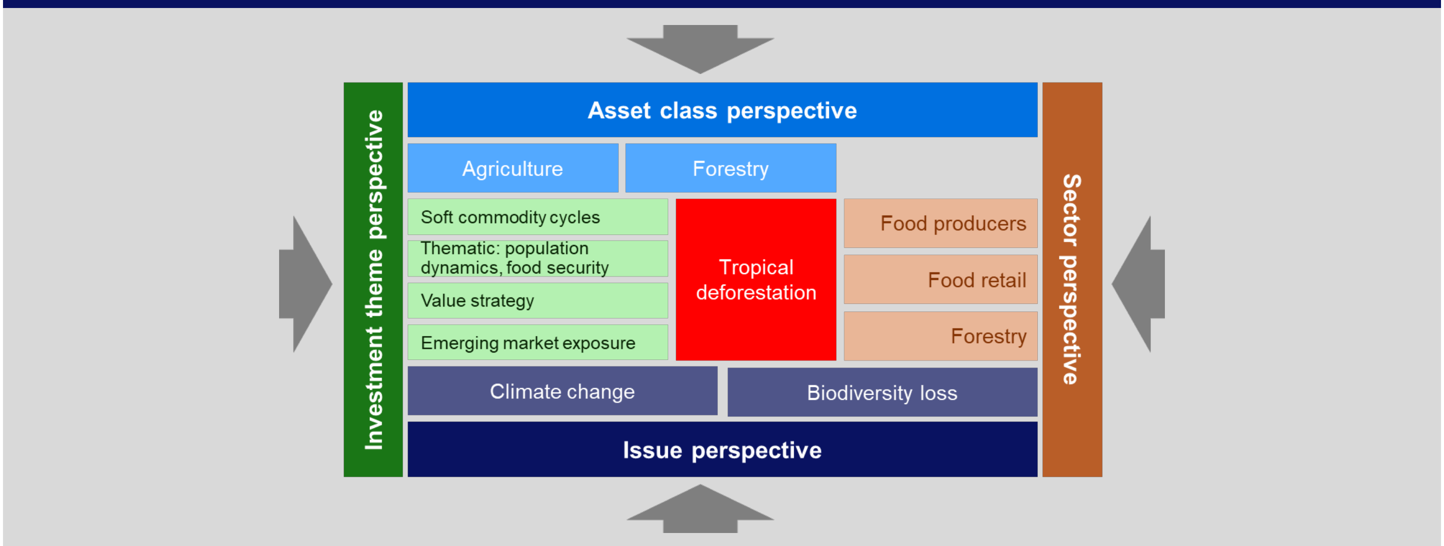
Individual sustainability issues can be approached from multiple perspectives. As the graphic below shows, the issue of tropical deforestation can be reached from various different perspectives.

Self-evidently, the more routes you give an investor to reach your theme of interest, the more likelihood you have of the research being used. While the sector, issue and asset class perspective are evident to most research providers, we see fewer efforts to articulate the way that sustainable investment ideas can be aligned with investment themes.

The more that a sustainable investment idea can be articulated as fitting an investment theme such as cyclical rotation, flight to quality, hunt for new tech stocks, commodity supercycle etc., the easier for it for an investor to engage with that idea. It is easier for an investor to evolve or expand their current perspective on markets than it is for them to adopt fundamentally different ideas.

Make it easy for them.

Investment perspectives on deforestation



Research Focus

Investors want to know about:

- Anything that will help them to make better investment decisions ➡ more money for their clients
- Anything that will make them look clever in front of clients and colleagues
- Anything that will make their lives easier

If you can give them information that will do all three, then you are on to a winner.

Look for MATCO ideas

Research ideas should be:

- Material – which we interpret as 'having the potential to move a stock price by 5% relative to its sector in the next 12 months'
- Actionable – an idea must relate to an investment instrument that can be bought or sold. Most commonly this is an equity, but may also be a bond, a commodity, a derivative, an equity sector, a currency etc.
- Timely – investment ideas must be forward-looking (focused on what may happen rather than on what has happened) and will commonly be expected to crystallise within a 12 month period
- Communicable – investment ideas have to be clearly explicable if they are to be applied by investment decision-makers and then understood and integrated by the market as a whole
- Outperforming – of course….

See our article in SRI-CONNECT on 'Integrated analysis: approaching a tipping point'.

Focus on the right kind of 'materiality'

Investors care about what might affect company valuations.

So, it is important to recognize the distinction between:

- How important a company is to a particular issue and
- How important that issue is to the company

A chocolate manufacturer might be a major cocoa buyer from a country with poor social and environmental practices and therefore able to influence producers in that country. However, it doesn't necessarily follow that these practices have a significant impact on the company. The country may supply only a tiny proportion of the cocoa that the company buys or the company may simply choose to buy from elsewhere – thereby reducing its exposure altogether.

While the concept of dual materiality is becoming more widely-recognised by regulators and in sustainability reporting, remember that investors typically only have a mandate (and inclination) to consider materiality to the company.

Target specific value drivers

Investors want to know how the evolution of a particular issue could affect a company's valuation.

For this to happen, the issue needs to have an impact on an identified driver of company valuation. Such drivers might include: market share, sales revenues, costs, margins, etc.

Establishing a clear 'line-of-sight' between the sustainability factor being analysed and the specific investment value driver affected is critical to likely investor interest in the research.

Only reference reputational risk if you can quantify it

The concept of 'reputational risk' is significantly over-used in sustainable investment research and should, therefore be avoided unless it can be accurately quantified.

- Identifying that Company ABC's reputation is at risk from their exposure to and failure to manage a specific sustainability issue is of little use to an investor
- Identifying the number of customers / revenue likely to be lost by the company from its exposure to and failure to manage the issue is valuable information

The same applies to all other use of the word 'risk'. Always specify the magnitude of the exposure and the likelihood of the exposure crystallizing – whether this occurs from regulatory action, competition, changing consumer demand, access to raw materials or any other factor.

Use scenarios

Scenarios are extremely useful tools for sustainable investment research because:

- They are already understood and frequently used by investors;
- They are likely to be more widely used for sustainability applications – especially following guidance from the Task Force on Climate-related Financial Disclosures (TCFD) on the use of climate scenarios to stress-test portfolios.
- They enable stretch cases to be articulated – even beyond current expectation – and then applied as events change that expection

Scenarios enable an analyst to set out possible pathways whereby company valuations are materially changed due to one or more events and thus allow investors to think in a fundamentally different way about a company.

The strength of the scenarios used will depend on the credibility of the assumptions involved. For example, a scenario based on global governments changing regulations within the next three years is open to investor pushback, whereas one based on consumer preferences changing over a decade is likely to be accepted as reasonably probable.

Use … but don't overuse … benchmarks and rankings

Benchmarks and rankings of companies can be very useful within sustainable investment. They:

- are easy to construct,
- create a point of focus for the research provider and
- communicate simple flags clearly

They also incentivise competitive instincts within companies: No-one wants to be bottom of a ranking; everyone likes to be top.

However, they have limitations in respect of investor usage and it is important to recognise these.

Most notably, they rarely address the question 'So what for valuation?'

Knowing that Company X is top (or bottom)-ranked on a listing of responses to Sustainability Issue Y creates a flag but tells an investor nothing about whether that positioning is already recognised by the market and therefore 'in the price'.

Further, constructing benchmarks and ratings typically requires the aggregation of different sustainability factors – whereas the application of sustainability factors to investment decision-making typically requires the opposite: the isolation of those factors which are most likely to affect financial drivers.

Be selective (about the research that you write and whom you promote it to)

Remember that the quality and suitability of your research 'brand' is everything. Investors are likely to pay more attention to providers that supply them with high-quality, relevant research than if they are rather than being e-mailed constantly with pieces of dubious less relevance to them. With this in mind:

- Don't be afraid to put research ideas in the bin if they don't meet the standard
- Don't be afraid to ignore certain investors with certain research pieces.

(For a contradictory perspective, see 'Hook, jab, jab, jab, jab, hook' below.

Innovate (in research)

Numerous factors prevent 'mainstream research providers from innovating in sustainable investment:

- Their output is hard-regulated by financial services legislation governing what they can write and how they can distribute it
- Their output is soft-regulated by internal rules governing the tone of research, the format in which it is produced, the range of topics which can be considered relevant etc

… and typically these constraints and the fact that they are part of conservative companies with policies make innovation hard to achieve – so 'mainstream' research providers are often slow to develop new research techniques.

Independent research providers face no such constraints and should take advantage of this.

Be independent

Although every single mainstream investment research provider would argue that they have controls in place to prevent bias towards corporate clients, many are 'sensitive to wider commercial relationships' … which amounts to the same thing.

Independent research providers have no such constraints. They should make full use of the differentiating scope that they have to write research that is critical of companies

Don't be safe; be right.

Know the companies, sectors and value chains that you analyse

Issue expertise is one of the most important differentiators for grant-funded research providers – investors value the different perspective and depth of analysis which they give compared to mainstream analysts.

However, any research that seeks to influence investors will need to engage analysts and investors that understand, in detail, the activities and exposures of the companies and sectors that the research relates to.

All independent research providers need to understand the business models and value drivers behind the sectors and companies that they are writing about. (Importantly, this does not mean that you need to understand the finer points of valuation of each and every company covered – just the basics).

There is no point writing an in-depth piece about, for example, the climate change exposure of a given mining company if you don't understand the different commodities that the company is mining and the different regions of the world where it operates.

Such industry knowledge can either come through hiring industry analysts or through fundamental research. In this latter respect, companies' strategic presentations and capital markets days are good starting points and can be supplemented by discussions with the company and stakeholders of that company.

… but don't feel you have to write directly about companies

Deep dives into issues and investable themes can be more valuable to investors than shallow skims with company names included. For example, some detailed analysis of likely carbon price trends might be more valuable than yet another piece highlighting which European utilities are more or less carbon exposed.

Research Presentation

Write research notes upside down

Investors – like most people – will discard 90%+ information that they receive based on the subject line of the email that delivers it. They will then discard 90%+ of what remains based on the first three bullets and 90%+ of what remains based on the first paragraph.

So, make sure that your key messages are include in the title and in the opening bullets.

- What's new about your idea / information
- What should investors do with this new idea / information

Then expand into the detail after that. Never write introductions. Never build a story. Head directly to the main point.

Avoid acronyms, complex language and delving too deeply into the intricacies of your research and ensure that the important messages can be distilled into 90 seconds. If this can entice investors into being interested in the research, they will read the rest of the report, consult appendices or contact you directly.

(* These percentages are purely illustrative)

Reference: The Morning Meetings series on SRI-CONNECT shows three analysts communicating a sustainable investment message in 90 seconds and incentivising investors to read more of the report.

Find eye-catching, thought-provoking titles that resonate financially

The terms "Carbon Bubble" and "Stranded Assets" exemplify what all research providers should look for in a title. Something snappy – with financial meaning – that encapsulates a theme.

It's not easy to replicate but it's worth trying.

Help your readers tell your story

Investors and analysts that receive your research may need to explain what you have told them to colleagues, to their boss, to clients or to the companies referenced themselves.

- Their colleagues will need to understand the financial resonance
- Their clients will need a story, tangible examples and a sustainability context (such as a shift to Net Zero or contribution to the UN Sustainable Development Goals
- The companies will need to understand where they fit within the narrative

Make it easy for people to tell your research idea to different audiences.

"Always be closing"

Engaging any investor with an investment idea involves a sales process.

Do not make the mistake of thinking that investment research provision is a collaborative learning experience.

You have an idea; you want investors to apply that idea; so, sell it to them.

Get up close and personal

People communicate with people. Investors and financial analysts have dogs and children as well.

So, although you should always lead your research pitch with solid financial arguments, don’t be afraid to follow-up with personal connections.

While all investment analysts pretend to be unbiased dispassionate observers of the world, they are also people.

Research Distribution

Research distribution is important.

In fact, if you don't get your research distribution right, you should ignore the two preceding sections on Research Focus and Research Presentation.

If your research isn't going to be seen, it doesn't matter how well focused or presented it is.

Ask yourself: Are we really the best distributors of this idea?

At the outset, consider whether your organization has the right skills and contacts to distribute your research idea. You may find that you can get much more leverage by channeling the idea through a third party.

As you consider this, bear in mind that the competitive battle for ESG research over the past ten years has been more of a battle of brands, of sales capabilities and of technology than a battle of research ideas. The major incumbents (MSCI, Sustainalytics, Morgan Stanley, HSBC, S&P, Moody's, Fitch, Bloomberg etc) have formidable sales teams and distribution platforms.

Independents are in a battle for investor attention with these well-honed operations.

So, ask yourself: Is this a battle that you want to fight or are you better forming an alliance with one of more of the existing players – such that they leverage your research idea and you leverage their sales network?

Self-evidently, there are advantages and disadvantages to both approaches.

Plan distribution as carefully as research

Having identified who your target audience is and what your message is, spend time considering how to reach them.

Remember that most investors will need to encounter the same idea half a dozen different times before they take it on board.

So, hit them through multiple distribution channels and hit them again … and again … and again.

Use multiple distribution channels

Self-evidently, research providers should use as many distribution channels as they can – and certainly think wider than their mailing list and a press release.

In order of (chronological) priority, investors can be reached via:

- Your own distribution channels
- Research platforms
  - Mainstream: Bloomberg, Refinitiv
  - Specialist sustainability: SRI-Connect
- Media
  - Specialist sustainability: Responsible Investor and Environmental Finance
  - Mainstream financial media: FT, Wall Street Journal etc
  - Mainstream generalist media
- Other industry distribution
  - Industry conferences
  - Newsletters of sustainable investment fora

- Social media
    - LinkedIn is the most used platform by sustainable investors

Two factors, however, seem less clear to independent research providers:

- Investors like to receive their research before they hear about it in financial media. Any outperformance opportunity arises before an issue receives mainstream coverage and investors are more likely to read research if they know they are getting a 'sneak preview'. So, while it is tempting to target an article in the Financial Times or the Wall Street Journal, remember that these organisations don't actually buy or sell shares
- Your highest quality communication opportunity should be the one-on-one meeting with the investment analyst

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Distribute all research via SRI-CONNECT's Market Buzz – this notifies most sustainable investors globally while enabling you to retain full control over client access

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Hook, jab, jab, jab, jab, hook

Don't be afraid to reiterate and develop a major idea.

If you write a big piece of research … hold back an additional angle to send out a month later … and an expanded perspective a month after that … then another one … and then another magnum opus.

If you want investors to take your ideas on board, you and your idea need to stay on their radar.

Short-term trading ideas come and go … but structural change ideas develop and evolve over time. The key is being known as a 'go to' specialist on your chosen big idea.

Create a debate

Posting that you are excited to be releasing a report that you have been working on for months signals an end point to your audience.

Posting that your report open questions for investment debate and active investor consideration signals a start point and is much more engaging.

Innovate (in distribution)

In distribution, independent research providers have a huge advantage over regulated providers.

They are not limited in how they can distribute their research, or to whom. They typically operate with more flexibility around communications than 'mainstream' financial services firms and should use this opportunity to be to their advantage.

Posting a pdf report on a website is fine; but it is unexciting and is unlikely to engage.

While staying within the parameters of how investors expect to receive information, work with your communications team to present research via:

- Data dashboards and infographics
- Blogposts –preferably with a strong analytical opinion that will encourage debate
- Videos – whether interviews or presentations – that make it easy for an investor to engage with and understand your messages. Ensure that these are rehearsed, professional and snappy.
- Podcasts – so that investors can consume them while commuting or jogging. And use the flexibility of the format to make your content interesting – introduce debate and controversy or just different voices – rather than simply summarising your research