



Investors are increasingly assessing companies on environmental, social and governance criteria. But Helena Viñes Fiestas, Head of Sustainability Research at BNP Paribas Asset Management, believes there is still a widespread lack of transparency on these issues, as *Tim Cooper* reports.

Investing using environmental, social and governance (ESG) criteria is no longer a niche activity. It is an increasingly important theme in the asset management world, with many predicting that it will soon become a default approach for most funds, not just those that badge themselves as specialist ESG products.

This change has already taken place at BNP Paribas Asset Management (BNPP AM), which offers several specialist ESG funds, but also aims to meet clear ESG criteria across its entire product range. Helena Viñes Fiestas, the company's Head of Sustainability Research, is responsible for making sure that happens.

Viñes Fiestas was recently instrumental in establishing BNPP AM's sustainability center and sustainability committee (which is chaired by its

CEO). The center coordinates ESG integration within investment teams, as well as product development, communication and marketing.

"Sustainability and everything around it have become critical and a pillar of our strategy," says Viñes Fiestas. "Until recently, our head of ESG provided research on the issues to funds. But we have changed it so that ESG work is now integrated in all teams."

To assess the ESG credentials of all the companies the firm invests in, Viñes Fiestas's team has developed its own indicators. These start with information that the company's external research partners glean from corporate sustainability reports. The team ranks companies according to these indicators, then filters them into a matrix sorted by sector and sub-sector, market capitalization, and geography.

“We aim to meet the UN Global Compact (UNGC) principles in all our investments, but we have also developed our own policies and indicators, including some that are sector-specific,” Viñes Fiestas explains. “These cover more sensitive areas than the UNGC does, such as unconventional oil and gas, mining and the farming of palm oil. Our policies have become mandatory and we exclude companies that do not comply with the policies from all our funds and other ownership activities.”

The next level of analysis involves Viñes Fiestas and her team reading corporate annual and sustainability reports themselves for more detailed information. This might include looking for the true costs of CO₂ emissions, and of water and energy usage, as well as gathering more information about a company’s research pipeline, market environment, intellectual property and policies.

IN-HOUSE INDICATORS

Viñes Fiestas says they developed proprietary indicators because “we believe we can provide the best service to clients by using active management around sustainability. Our research partners do great work, but we need more detailed information to analyze fully the company’s ESG policies and its performance against those.

“For example, in pharmaceuticals, we need to know what the company’s policy is on access to medicine for the most vulnerable and needy people, and what it entails,” she says. “The research provider will not look in detail at the intersection between the company’s portfolio and business model and its accessible medicine policy.

“There may be good logistical reasons, such as medical infrastructure, why the company doesn’t focus on pricing to improve accessibility. It may focus on partnerships or licensing to make up for that, but you can’t get far in that analysis unless you know the company in more detail.”

She adds that other details they look for include where the company invests, where and how it conducts clinical trials and how it reports them, the effect of its activities on public health, and how productive its research and development is.

“Of the top 20 utilities that BNPP AM analyzes, only **nine** provide targets for **future emissions.**”





PROFILE

BNP Paribas Asset Management (BNPP AM), the investment management arm of BNP Paribas Group, has offices in more than 30 countries and €571b under management. Helena Viñes Fiestas has been Head of Sustainability

Research since September 2013, having joined the company in May 2011. Prior to that she worked at Oxfam, CoreRatings, UK Sustainable Investment & Finance Group and Global Witness. She heads a team of seven providing oversight and working to improve sustainability in all areas of the company's investments. In this role, she designs and implements policy and strategy for engagement with companies, policymakers and other stakeholders.

“Recent corporate failures show the importance of good corporate governance and **investor stewardship.**”

Helena Viñes Fiestas

If this information is not available in the reports, the next step is to meet the management.

CARBON EMISSION TARGETS

Viñes Fiestas has had significant involvement in several cross-sector organizations aimed at improving understanding and disclosure of ESG issues. She is part of the policy advisory group for the UN-backed Principles for Responsible Investment, sits on the board of the Institutional Investors Group on Climate Change (IIGCC) and on the advisory board for the Organisation for Economic Co-operation and Development guidelines on agricultural supply chains, is a member of the expert committee of the Access to Medicine Index, and acts as technical adviser to the Transition Pathway Initiative on carbon emissions. She says these roles help her to apply pressure directly to companies, and that they help to inform BNPP AM's understanding and methodology.

While transparency on ESG issues is improving across sectors, there is still much work to do. “Today, 90% of investors' engagement with companies is about transparency,” she says. “That hinders our ability to talk about other issues, such as performance.

“For example, investors need to know where a company is now on its Paris Agreement carbon emission targets – but also, most importantly, where it wants to get to and how. We need to decide whether the company's future targets are sufficient and whether the plan to reach them is feasible. To do this, we need more transparency from companies on carbon emissions.”

Trial and error

In conversation, Viñes Fiestas often refers to the pharmaceutical industry, as she finds it particularly interesting from an ESG perspective and because of the work she has carried out on the Access to Medicine Index – not, she emphasizes, because this sector is particularly better or worse on ESG performance or disclosure.

In particular, she has done some significant work on the impact of poor transparency in reporting the results of clinical trials. This has been at the root of the largest fines awarded in litigation relating to illegal marketing practices. “In pharma, I might use the sustainability report to understand a company's clinical trials policy better, and the annual report to understand where it operates,” she explains. “Pharma companies have improved transparency around the integrity and reporting of clinical trial results, but there is still little information on exactly where they are conducted and who conducts them.

“This is important, because more problems arise when the trials have been outsourced or carried out in certain geographies. There have been problems with the data, but also with participants who were not necessarily recruited ethically.

“I noticed that there tends to be a negative correlation between the level of sensitivity and the level of transparency. But the more sensitive the area, the more important transparency is. The number one cost of litigation has been minimizing adverse secondary effects of drug trials. When you look at it in detail, the litigation wasn't because of the secondary adverse effects, it was because they had identified the adverse effects during their clinical trials, but not reported them correctly.

“This is also crucial for investors, because we estimate that 30% of a company's valuation is based on the results of phase three clinical trial research, and the analyst has to look at this to estimate future value. The work we have done on transparency in clinical trials has been useful in finding out what the real issues are here.”

To illustrate the problem, she explains that, of the top 20 utilities that they analyze, only nine provide targets for future emissions, only six for 2030 and only two for 2050. In the mining sector, only two companies provide any future target, and in oil and gas, only four do so.

“Our role is to compare, but it is hard to compare on performance when such small numbers of companies publish targets,” she continues. “It means we can only compare on the basis of what they do today. This is important for risk management,



though. As long-term investors, we need to be able to assess how those companies will cope in the future. So I put pressure on the ones that do not publish.”

The issue of transparency goes beyond carbon emissions, she says. “Other areas we look at include quality of management and policy – we need more transparency in those too. If you have nothing to hide, and you have done the work, it is in your interests to be transparent. Those that do not disclose cannot be assessed and therefore risk being excluded from our funds.”

COMPARABLE METRICS

Reported information also needs to be meaningful, comparable and consistent: “We get lots of information, but often it is anecdotal, or doesn’t use comparable metrics. For example, real estate companies often don’t provide full disclosure on their entire portfolio.

“The key driver for companies is regulation,” she continues. “European companies are the best at publishing targets because the regulatory pressures on them are higher. There has been progress, but we are still far away from being able to assess companies’ performance as we need to. For example, even with those four companies in oil and gas that have published targets, the level of meaningful detail is poor.”

Viñes Fiestas says she has a much better understanding of environmental issues such as these as a result of her work with the Transition

Pathway Initiative and the IIGCC. The latter has been instrumental in the launch of a global initiative to engage with the 100 biggest polluters in the world.

“At the IIGCC, we are asking companies to report on climate change according to our framework,” she explains. “We have written to them highlighting that we are working together globally and how important it is to have comparable data. So we are engaging with them to move toward that. We have asked for a first meeting and we are awaiting replies.”

CORPORATE GOVERNANCE

Viñes Fiestas says that reported disclosure on corporate governance issues is better than it is for environmental and social ones. She believes the new EU Shareholder Rights Directive, due to be implemented in June 2019, will help improve reporting disclosures further in governance, including areas such as remuneration, where much improvement is needed. For example, it will encourage companies to report on directors’ actual pay and give shareholders the right to vote on remuneration policies annually.

She adds: “All reporting regulations such as these need to be compulsory, not just ‘comply or explain’ as some have been, although we do encourage that as a first step. Recent corporate failures show the continuing importance of good corporate governance and investor stewardship.” ■

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