IR Survey 2021

Effective IR strategies for a post-Covid world

Citigate Dewe Rogerson

Preface

Citigate Dewe Rogerson (CDR) has been investigating trends in investor relations since 2008, providing insight into how companies have adapted to both major crises and more subtle changes in their market environments.

Our 13th Annual IR Survey reveals how Investor Relations Officers (IROs) from 250 leading companies across 49 countries around the world are evolving their IR strategies for a post-Covid world and responding to the growing stakeholder demand for ESG data.

Many of the themes in this report echo our own advisory experience over the past year, of supporting our global client base as they developed their ESG narratives and navigated the communications challenges of the pandemic.

Remarkable progress has been made in sustainability reporting, particularly in Europe, and we expect companies to continue to build on this. But with COP26 highlighting the urgent need to move away from an ‘all talk, no action’ approach, there is more pressure than ever on companies to demonstrate management authenticity and accountability when it comes to ESG strategies.

The advantages of being a responsible, forward-looking company should more than offset the time and effort required to make the necessary internal changes to future-proof the business. As long-awaited regulatory changes to ESG disclosure start to emerge, companies must embrace this period as an opportunity to become leaders in the field.

I hope this report will be a helpful guide to companies as they continue to evolve their strategies and narratives. On behalf of CDR, I would like to thank all our respondents for their continued support and valuable insights.

Sandra Novakov,
Head of Investor Relations

Key facts

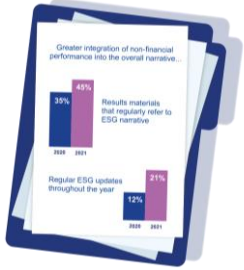
Pandemic-driven pressures on companies persist

Stakeholders are looking beyond short-term fixes, demanding to see clear strategies for post-Covid recovery

This is reflected in heighted activism, partly driven by ESG issues

21%
of respondents report a rise in engagement with activist investors over the past year

Companies have responded by upgrading their reporting and implementing internal changes



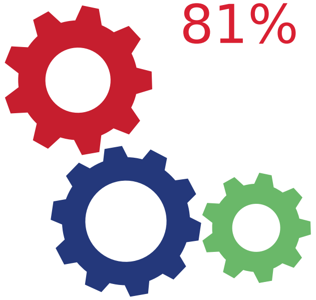
31% of companies plan to conduct an investment case review by mid-2022

23% plan to announce a new strategy

45% include regular references to ESG in results materials...

...not least to boards and management teams where ESG accountability and skillsets remain lacking...

46% state their board now has a dedicated sustainability committee



81% said that their management teams have less than 10% of their remuneration package linked to ESG metrics

48% of IR teams are investing more in in-house ESG expertise

...and engaging more with the market, both in person and virtually

40% have restarted face-to-face meetings

64%
have held more ad hoc virtual meetings

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Summary of findings

Our findings show that, despite signs of recovery across the globe, Covid-19-driven changes to financial reporting and investor engagement persist. For example, 31% of respondents have modified their approach to guidance, and only 14% intend to restore guidance to pre-pandemic levels by mid-2022.

Investor demands have moved beyond additional clarity and context around performance and future expectations, with companies increasingly being called upon to demonstrate their approach to navigating post-pandemic challenges, and longer-term strategies for recovery. This has prompted a wave of investment case reviews, which 31% of companies plan to conduct by mid-2022, as well as new strategy announcements (23%).

The wider impacts of the pandemic have driven activist investor activity, as corporate behaviours were subjected to greater scrutiny. 21% of respondents report a rise in engagement with activist investors over the past year, with many citing ESG issues as the key driver of the trend. This heightened engagement is reflected in more challenging general meetings during the 2020/21 AGM season, with 27% of companies experiencing an increase in the number of votes against AGM resolutions.

While the pandemic has undoubtedly driven an exponential rise in focus on ESG strategy, a lack of executive management and board accountability for non-financial performance is a growing issue. 81% of companies surveyed said that their management teams have less than 10% of their remuneration package linked to ESG metrics, and only 3% had packages which link ESG to more than 25% of remuneration.

Our findings also reveal that many companies remain light on relevant experience at board level. Fewer than 50% have boards which include at least one member with experience of managing ESG issues, and only 8% claim such experience in all board members. Also, somewhat surprisingly, a significant 72% of boards do not have environmental or social issues as a standing agenda item at all meetings.

When it comes to non-financial reporting, there is evidence of rising integration of ESG narrative into ongoing newsflow and results reporting, with 45% of companies including regular references to ESG in results materials, a significant increase from 35% in 2020. The share of companies that adhere to an established ESG reporting framework has seen an equally substantial increase, from 69% in 2020 to 84% in 2021, while 38% have developed a new ESG strategy in response to changing shareholder expectations and introduced new policies.

Looking ahead, as travel restrictions ease, more than half of IROs plan to increase engagement with potential investors in a renewed quest for fresh capital. To this end, 40% have restarted face-to-face meetings. However, with 69% having adopted a hybrid working model, virtual meetings are expected to remain an important part of the engagement programme. 64% of respondents have held more ad hoc virtual meetings throughout the past year and 32% more virtual Capital Markets Days or other group events.

The fact that a third of IR teams have seen a decrease in their annual budget indicates that savings in travel costs are often not redeployed in other aspects of the IR programme. However, as ESG becomes more relevant for investors and disclosure requirements rise, nearly half of companies are investing more in in-house ESG expertise.

Demand for heightened clarity and context continues

Many aspects of normal business practice have been disrupted during the pandemic. From day-to-day operations to longer-term business strategy. This has been reflected in corporate reporting as companies have sought to reassure investors and provide additional clarity and context around performance and future expectations during unpredictable times.

Our findings show both higher levels of disclosure and more frequent engagement since the outbreak of the pandemic.

The trend with respect to guidance demonstrates the extent to which these pressures persist. The fact that only 14% of respondents intend to restore guidance to pre-pandemic levels by mid-2022 confirms that there is still a way to go before 'normality' is restored.

Reporting and engagement habits in 2021 reflect continued pressure from the market…

37% have increased their level of disclosure

64% are having more ad hoc virtual meetings

32% are hosting more investor events

…and guidance remains a challenge against continuing uncertainty

31% have modified their approach to guidance since the outbreak of Covid-19

14% intend to restore guidance to pre-pandemic levels by mid-2022

Increased threat from activist investors

The wider impacts of the pandemic have driven activist investor activity, particularly around ESG issues, as corporate behaviours were subjected to greater scrutiny. This heightened engagement is reflected in more challenging general meetings during the 2020/21 AGM season, showing once again that activism is now well and truly mainstream. Investor activism appears to have risen in tandem with that of NGOs, pressure groups and other agents for change.

To manage relationships and maximise positive AGM voting, some companies have made greater efforts to ensure investors feel engaged and well-informed in the absence of in-person events. This has led to an emergence of separate events to the formal business of the AGM.

Covid-19 has increased the need to carefully manage investor relationships...

27% saw an increase in votes against AGM resolutions during the 2020/21 AGM season

21% have engaged more with activists over the past 12 months

...and some companies took extra care to ensure investors did not feel side-lined in the absence of in-person AGMS

14% have held a shareholder engagement event separate to the formal business of the AGM, the vast majority of which are in Europe

8% are considering a separate event to the AGM for next year

> "We have seen more interest or pressure from funds regarding ESG reporting, in particular on climate-related issues."

New narratives needed for a post-Covid world

Demand for clarity has moved beyond each organisation's immediate response to the crisis, and companies are increasingly being called upon to demonstrate their approach to navigating post-pandemic challenges, and longer-term strategies for recovery.

As companies seek to optimise how they present themselves to the investor community, redefining key messages and elevating delivery methods are among the key priorities for the year ahead.

The fact that nearly a quarter of our respondents plan to set out a new corporate strategy by mid-2022 demonstrates the magnitude of the pandemic's impact.

> "Investors are more concerned about the company's initiatives for the maintenance and sustainability of the business in the long term, in addition to staying closer to the issues they consider essential."

There is a growing need for companies to show how the business is adapting to the 'new normal'…

31% are increasing their focus on long-term strategy

23% plan to set out a new corporate strategy by mid-2022

…and around a third of companies are in the process of redefining their investment case to reflect new narratives

31% plan to refine their investment case by mid-2022

33% plan to upgrade IR materials

47% plan to host a capital markets day by mid-2022

Renewed quest for fresh capital

The gradual easing of travel restrictions provided IR teams with an opportunity to re-start face-to-face meetings during the summer of 2021. Despite the success of virtual engagements through the pandemic, our findings demonstrated the importance of physical meetings when it comes to building relationships with new or potential investors, a key takeaway 2021/22 objective for the majority of our respondents.

However, the fact that the IR community has embraced hybrid working, with 69% of respondents expecting to retain this model in the longer-term, means that virtual engagement is likely to remain a key part of the engagement mix.

This will allow companies to continue to benefit from increased efficiency driven by reduced travel, the opportunity to engage with the wider pool of investors on a more regular basis, as well as more effective investor education through meeting attendance by more key executives from across the business. Not to mention the environmental benefits of reduced air and road travel needed to achieve rising ESG commitments.

Virtual engagement allows IR teams to cast a wider net

55% plan to increase engagement with potential investors

40% are re-starting face-to-face investor meetings

29% are engaging more with investors outside key financial centres

> "Virtual roadshows have improved our ability to target an optimum mix of investors, though there are limitations to connections that aren't in person."

Strong ESG credentials no longer optional

The pandemic has undoubtedly pushed ESG further up the corporate agenda. Companies are changing as a result of rising pressure from a wide range of stakeholders regarding ESG. The need to communicate ESG credentials requires a robust strategy, supported by appropriate policies and clear targets. The sharp increase in the percentage of companies that adhere to an established ESG reporting framework reflects an overall rise in ESG reporting standards globally.

GRI remains the most popular framework globally, reflecting the strong focus on ESG among European companies. However, significant increases can be observed in the adoption of the SASB standards, which in mid-2021 merged with the International Integrated Reporting Council (IIRC) to create the Value Reporting Foundation, in a move towards the long-awaited harmonisation of ESG reporting standards. At the same time, TCFD has also seen a significant rise in popularity as a growing number of countries including the UK, New Zealand and Switzerland made reporting against the framework mandatory. Following the launch of the Taskforce on Nature-related Financial Disclosures (TNFD) on 4 June 2021, we expect nature-related risks to come to the fore as reporting requirements continue to evolve.

The need for a good sustainability story has increased substantially…

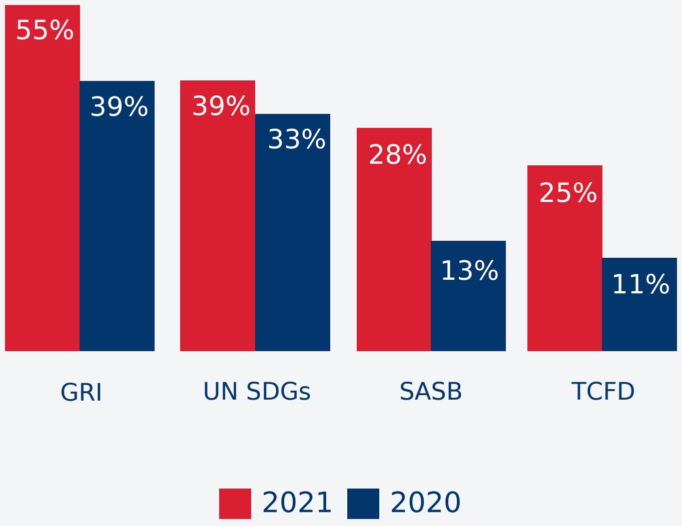
73% have greater focus on communicating existing credentials or achievements as a result of changing investor expectations

38% have developed a new ESG strategy in response to changing shareholder expectations and introduced new policies

84% adhere to an established ESG reporting framework (2020: 69%)

51% produce standalone sustainability reports (2020: 42%)

ESG reporting framework(s) adopted by companies worldwide



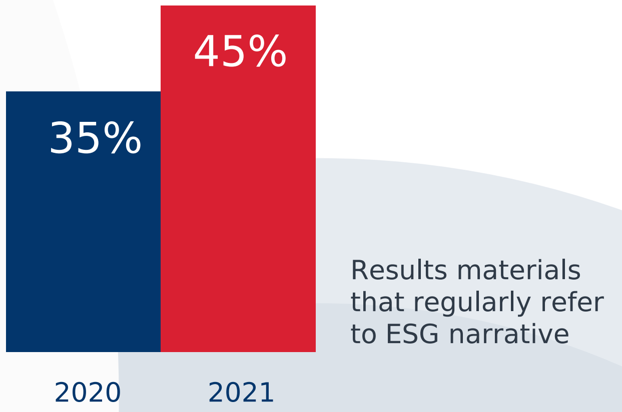
Accelerated integration of ESG into overall narrative

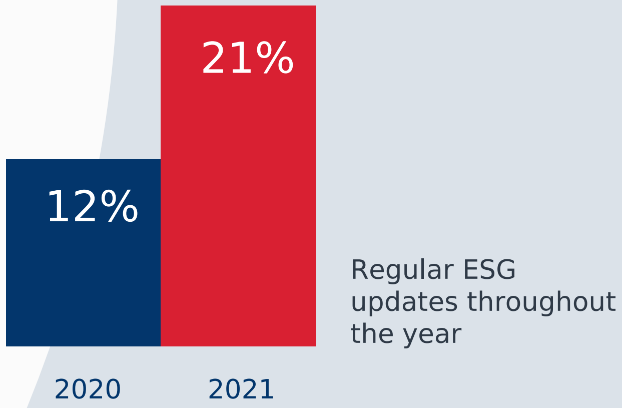
The increasing need to demonstrate authenticity when it comes to ESG strategy has led to further integration of non-financial results into the overall corporate narrative. Our findings show that references to ESG achievements in results materials are on the rise, with more than a fifth of companies now also publishing regular ESG updates throughout the year. However, a regional breakdown demonstrates that North American companies continue to lag behind their European counterparts in this respect.

Only **12%** of North American respondents release dedicated ESG announcements throughout the year, compared with **25%** of Europeans.

A different approach is also evident between sectors. For example, 57% of financial services companies include references to ESG in their results materials, compared with 38% of industrials, suggesting that integration of ESG into the narrative is simpler for some sectors over others.

Greater integration of non-financial performance into the overall narrative...





Weak accountability for ESG performance a growing issue

Despite increased focus on ESG strategy, at board and executive management level, there remains significant room for improvement when it comes to accountability for non-financial performance and skillsets needed to deliver on these targets. As investors' focus on ESG grows, so does their requirement for ESG performance to be reflected in executive remuneration. However, our findings show that it is early days for this to be translated into remuneration policies in a meaningful way, with a vast majority of management teams having less than 10% of their remuneration package linked to ESG metrics.

There is increasing recognition that accountability for ESG performance is important but delivery against ESG KPIs has little impact on executive remuneration

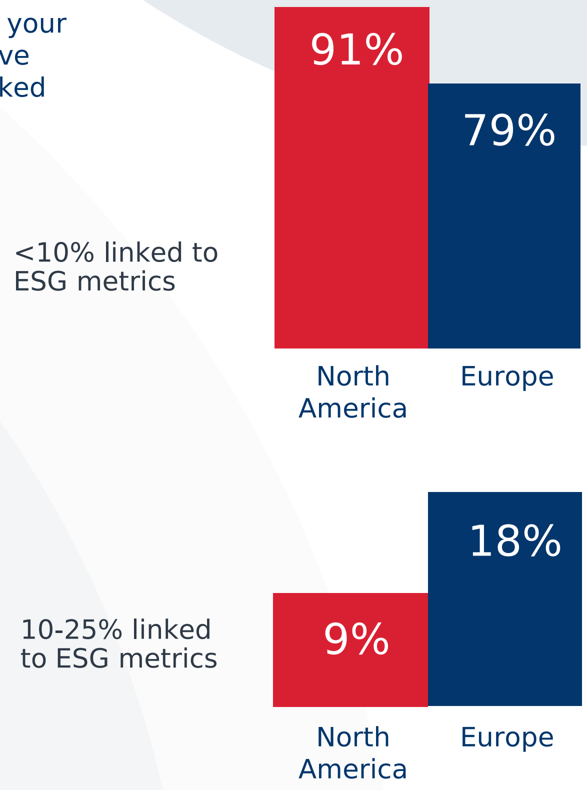
34% report changes in board management accountability for non-financial performance as a result of changing shareholder expectations

81% of management teams have less than 10% of their remuneration package linked to ESG metrics

3% of companies have packages which link ESG to more than 25% of remuneration

Once again, a divergence between North America and European companies is evident, with a greater share of executive remuneration subject to meeting ESG-related criteria among the latter contingent.

What proportion of your company's executive remuneration is linked to ESG metrics?



Material rise in board sustainability committees

Reflecting the need for a tailored approach to ESG linked to each company's challenges and opportunities, we have observed a range of approaches to ESG oversight including sustainability committees with board member representation, ESG committees at executive level, specialist committees focused on pertinent ESG issues, such as safety and environment, and integration of ESG oversight into existing committees. While it is evident that there is no 'one-size fits all' model, the year-on-year rise in dedicated sustainability committees to 46% demonstrates the growing popularity of this approach.

Our 2020 report highlighted the rise in focus on social issues for the sustainable development of companies as 67% of our respondents witnessed increased investor interest in a broader range of issues including DE&I, data protection and privacy, employee engagement and human rights. While this trend has continued into 2021, the COP26 summit has partially shifted focus back to environmental issues this year.

However, despite increased demand for both environmental and social strategies, our 2021 findings show that more than two thirds of boards still do not have social or environmental issues as a standing agenda item at all their meetings. This may be a reflection of the fact that many companies remain light on relevant experience at board level.

Nearly a third of companies also cannot tell if any of their investors have divested the stock as a result of an unsatisfactory ESG performance or rating. This lack of awareness regarding the consequence of inadequate ESG strategies is a likely impediment to improvement in non-financial performance and ESG oversight.

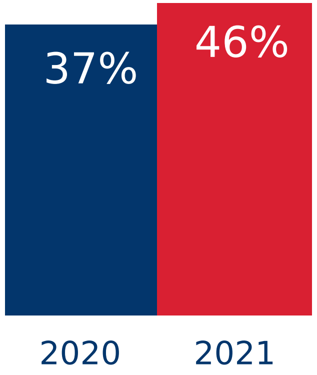
Many boards remain light on ESG experience, which limits their ability to fulfil their fiduciary duty…

45% of boards have at least one member with experience in managing ESG issues

8% of boards have all members with experience in managing ESG issues

72% of boards do not discuss environmental or social issues at all meetings

Boards with sustainability committees



Growing pipeline of dedicated ESG events

Companies are looking to leverage their evolving sustainability narrative by engaging proactively with the investment community on ESG. Our findings also show an increasing focus on ESG by the buy and sell side, with investor conference calendars featuring a growing number of dedicated ESG events. Companies in some sectors are more likely to attend dedicated ESG events than others – for example, in the energy sector, 43% of those surveyed attended such an event, against 14% in the healthcare sector.

Dedicated company-hosted ESG events and roadshows are slowly emerging

8% of companies have hosted a dedicated ESG event

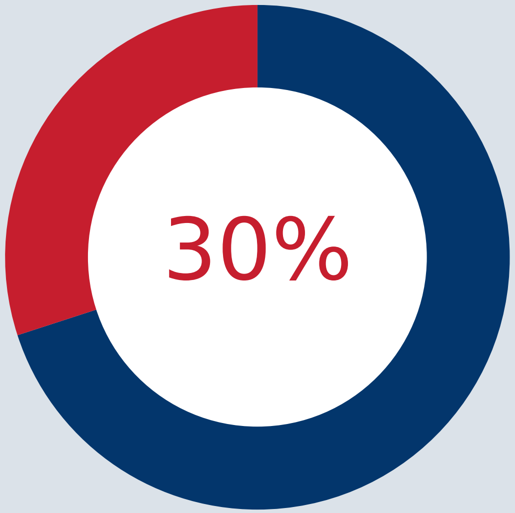
5% have conducted an ESG roadshow

Third-party ESG investor conferences are rising in popularity

30% have attended a third-party ESG conference during the past 12 months

27% plan to attend a third-party ESG conference over the coming year for the first time

Companies that have attended a third-party ESG conference during the past 12 months



Continued evolution of IR function

A third of IR teams have seen a decrease in their annual budget, indicating that savings in travel costs are often not redeployed in other aspects of the IR programme. Although growth in the size of IR teams is expected, at a time when investor relations is growing in importance, fewer than 20% of companies have increased IR budgets.

However, as ESG becomes more embedded in investor relations programmes and disclosure requirements rise, nearly half of companies are investing more in in-house ESG expertise.

European companies appear to be slightly ahead of the curve when it comes to ESG skillsets within the IR function, with **43%** of respondents stating they already have had an ESG specialist within the team, and a further **9%** intending to hire one. In contrast only **27%** of North American companies said they had a specialist on the team, and only **3%** said they planned to hire one in the future.

Continued evolution of IR function

18% of IR teams are expanding

37% have hired an ESG specialist

11% are planning to hire an ESG specialist by mid-2022

Get in touch

Our dedicated investor relations practice has a 30-year track record in advising boards, senior executives and IROs worldwide, building their profiles amongst the investment community and nurturing their relationships with key decision makers.

We come from different backgrounds but have one thing in common: the desire and commitment to maximise the effectiveness of your investment case and ensure successful delivery of your narrative through proactive engagement.

If you have any questions or would like to discuss any aspect of your IR programme, we would love to hear from you.

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