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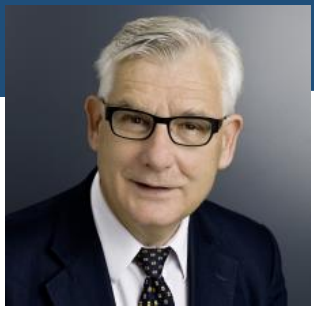
NEWSLETTER

5/2015



Materiality – Different Perspectives

KPMG refers to materiality as "*the principle of defining the social and environmental topics that matter most to a business.*"

According to a KPMG report from 2013 ("Survey of Corporate Responsibility Reporting, 2013") 80% of the world's largest companies already identify material sustainability issues in their reporting.

However, identifying those sustainability aspects that matter most to a business from the inside can be challenging for any organization. Additionally, some aspects of materiality are assessed differently by the reporting companies on the one hand and the companies' stakeholders (especially investors) on the other hand. As a consequence more and more organizations seek the help of outside experts to support their sustainability reporting.

While *financial materiality* focuses on those aspects of sustainability that have a material influence on a company's financial performance, companies increasingly try to identify and report non-financial information and its impact on a company's general business. This recent development is supported by increasing government regulation (e.g. European Directive on Non-Financial Reporting, Integrated Reporting Initiative in South Africa) as well as stock exchange requirements to report ESG risks.

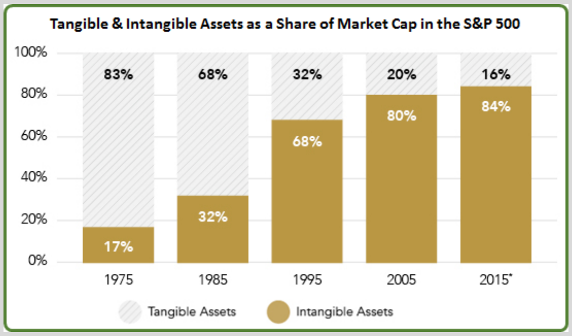
Integration & Standardization

Over the past decade sustainability of a company's strategy and business model has moved more and more into the focus of the investment community.
However, financial analysts - the key intermediaries between companies and investors – have raised three main shortcomings around the integration of sustainability information into their financial analysis. Specifically their concerns cover the lack of

- Transparency
- Financial relevance and
- Comparability of data

Tangible & Intangible Assets in 2015

Ocean Tomo, a financial advisory company, calculates the gap between the market cap of S&P 500 companies and their book value in order to determine the share of their intangible assets. The latest 2015 data shows that intangible assets have now grown to 84% of companies' market cap. In the long term view since 1975 the data reveals a fundamental rebalancing from tangibles to intangibles.



The key components of intangible assets – according to Ernst & Young – are

- Innovation & Intellectual Capital
- Brand
- Human Capital
- Risk Management
- Sustainability & Carbon Exposure

This fundamental shift from tangibles to intangibles also means that companies need to rebalance their strategic focus as well as their asset, risk and sustainability management.

Investors and financial analysts require reliable information to assess companies within their peer group and determine which companies are able to generate strategic advantages around current and future global megatrends.

Additionally this information needs to be presented in a format that investors and financial analysts can easily process and understand.

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This demand for more transparency, higher financial relevance and the comparability of data led to the movement towards financial materiality in the past years.

Now the market begins to transition towards more *standardization* and *integration* of sustainability reporting.

Standardization of sustainability reporting is supported by new reporting tools and guidelines developed by the

- International Integrated Reporting Council (IIRC)
- Sustainability Accounting Standards Board (SASB)
- Global Reporting Initiative

in order to enhance transparency and comparability of sustainability information for investors.

In parallel many companies are moving towards the integration of sustainability information into their annual reports in order to improve accessibility for investors and financial analysts.

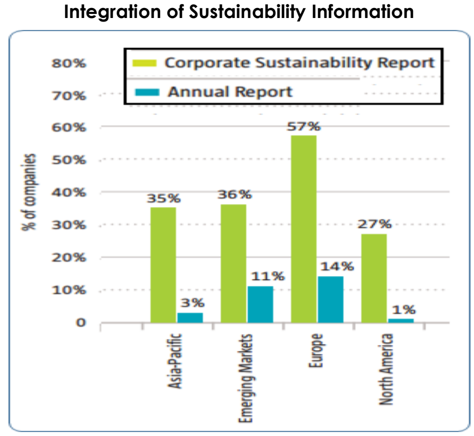
Ideally these tools enable companies to combine financial materiality with a more standardized and integrated approach to sustainability reporting. With such a combined approach companies can integrate the underlying sustainability questions implied in their strategy and business model with their financial relevance and report these together with their standard investor information.

Significant Regional Differences

According to RobecoSAM Europe is clearly leading this trend towards integration, with 14% reporting their material sustainability issues in their annual report.

Emerging markets are a close runner-up with 11%. North American companies clearly lag behind, with only 1% of companies reporting sustainability issues in their annual report.

Integration of Sustainability Information



Strict SEC reporting guidelines (that have yet to integrate sustainability information) may be part of the reason for this significant difference.

However, the global trend towards integration and standardization of sustainability reporting is expected to also include North America in the medium and long term.

Please contact us at info@connexis.ch to subscribe to our newsletter or to start a conversation about CSR and ESG in your organization.

For more information you can also visit us at our new, re-designed website at www.connexis.ch