
ENGAGEMENT GUIDE

FOR ASSET OWNERS & ASSET MANAGERS

EXCERPT



SASB CONNECTS BUSINESSES AND INVESTORS ON THE FINANCIAL IMPACTS OF SUSTAINABILITY

ABOUT THIS GUIDE

The SASB Engagement Guide provides industry-by-industry guidance on how asset owners and asset managers can use the SASB standards to inform and enhance their engagement with companies. SASB standards identify the sustainability issues most likely to impact financial performance of companies in 77 industries. For every industry, the Guide poses questions investors can ask to facilitate a more complete and robust assessment of long-term risks and value creation.

ABOUT SASB

The Sustainability Accounting Standards Board Foundation (SASB) is an independent, nonprofit standard-setting organization that develops and maintains robust reporting standards which enable businesses around the world to identify, manage and communicate financially-material sustainability information to their investors. SASB standards are evidence based, developed with broad market participation, and are designed to be cost-effective for companies and decision-useful for investors. To download any of the 77 industry-specific standards, or learn more about SASB, please visit sasb.org.



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INTRODUCTION

Corporate reporting is an essential tool for effective communication between companies and investors. It is not the *only* tool, however. Increasingly, investors have sought to engage in constructive dialogue with portfolio companies to develop a shared understanding of the key risks and opportunities faced by companies, as well as the strategies being used to address them.

Among those risks and opportunities, certain environmental, social, and governance (ESG) factors have risen in prominence in recent years. Although both investors and their portfolio companies are more attuned than ever before to these matters, they nevertheless face challenges in developing a common language to communicate about the sustainability issues that matter most to financial performance.

Drawing on the SASB standards, which identify the handful of ESG factors most likely to materially impact the financial condition or operating performance of companies in an industry, this *Engagement Guide* is intended to facilitate more focused conversations between companies and investors on financially material ESG issues. By providing industry-by-industry guidance to inform and enhance dialogue, the *Guide* aims to help companies and their investors develop a more robust understanding of key risks and

opportunities that may influence their ability to create sustained value over the long term.

This *Guide* is primarily designed for investors—including asset owners and managers—to help them identify the ESG issues that matter most to company performance and to guide discussion with company directors and management. Corporate professionals engaged in their company's shareholder relations program—including directors, senior management, investor relations, and corporate secretaries—can look to it for guidance on the evolving expectations of investors.

As companies and investors seek to better understand each other's needs and communicate more effectively regarding key sustainability matters, ESG reporting—like traditional financial reporting—will continue to evolve. Along with the SASB standards, we offer this *Engagement Guide* to help move this important dialogue forward.

COLORING OUTSIDE THE LINES

Engagement is primarily about communication.

Investor-company engagement helps build mutual understanding around the expectations investors have of boards and management in relation to a company's governance and how that supports financial sustainability. Companies, in turn, can explain the factors driving long-term value creation and influencing performance against strategic goals. Long-term sustainable financial returns are underpinned by operational excellence, including how well environmental, social, and governance (ESG) factors are managed as both risks and opportunities.



Disclosure is probably the lightest touch and broadest level of engagement. Investors disclosing their approach to stewardship and proxy voting, ideally publishing detailed voting and engagement guides and activity reports, help companies understand the benchmarks against which investors will be assessing company performance on a number of facets. Many companies tend to frame their disclosure in legal and regulatory requirements, whether it be financial updates, proxy statements, or press releases. But is that providing investors with the full picture? Arguably, no. Leading companies give additional color in their public reporting, within the rules but going beyond the most limiting lines drawn. Doing so helps investors and others with an interest in a company's performance and impact to understand whether it is on a path of sustainable, long-term value creation. This

is particularly relevant in relation to ESG factors given that the rules are piecemeal and ambiguous regarding if (and how) these should be reported. The industry-based framework developed over the past six years by the Sustainability Accounting Standards Board goes a long way to addressing this gap in the market. Reporting against it helps companies draw a more fulsome picture of performance, risk, and opportunity.

Shareholder meetings and proxy voting are the next broadest form of engagement that companies and their shareholders undertake. The governance facet of ESG is reflected in many of the proposals management puts forward to a vote; however, the environmental and social facets are generally not, largely because they are operational matters that are under the purview of management rather than shareholders. Some use the shareholder proposals

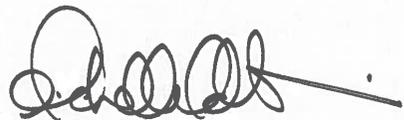
process to make requests of boards for specific changes in approach to ESG. While this gets an issue in front of all investors, it also has its flaws. Many issues raised in shareholder proposals are nuanced. Even where the principle behind the proposal is relevant, it might not always be appropriate to support the specific ask of the proponent, given the binary and relatively blunt signal that is the vote.

Which brings us to direct engagement and why it is so important. Engagement in this sense is primarily about investors asking targeted and thoughtful questions of companies that help them better understand the information companies have provided through their standard disclosures. Sometimes the aim of engagement is to encourage companies to change and to adopt governance and business practices that seem more aligned with shareholder's long-term economic interests and corporate resilience. It is also about investors explaining how reporting that goes beyond pure financials is used in their investment analysis and stewardship work.

As much as companies each face their own challenges and opportunities, and have unique competitive advantages, companies in a sector have similar characteristics and ESG exposures. This has been clearly illustrated in empirical research undertaken by SASB in developing their standards. Disclosure and engagement focused on understanding the different approaches companies within a sector are taking to manage the ESG risks and opportunities they face helps investors assess

the relative strengths of individual companies, boards, and management teams. It can also help assess the overall risk-return profile of their portfolios. For companies, an appreciation of the sector-specific themes investors are most focused on helps fine-tune messaging around the merits of management's approach.

Investors have different investment strategies and processes that companies need to understand to anticipate investor engagement. Companies sometimes express frustration about the contradictory demands and views of their investors, which can be hard to reconcile. But engagement is not a matter of investors micro-managing or telling companies what to do. Management and boards with a fuller understanding of the investor perspective are simply more likely to make decisions that are aligned with the long-term economic interests of the majority of their investors. This builds the trust and support that leads to a less volatile, if constantly evolving, capital ecosystem. That in turn helps generate the sustainable financial returns investors, and their beneficiaries, depend on to meet their financial goals.



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CONSUMER GOODS SECTOR

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APPAREL, ACCESSORIES & FOOTWEAR



The **Apparel, Accessories & Footwear** industry includes companies involved in the design, manufacturing, wholesaling, and retailing of various products, including men's, women's, and children's clothing, handbags, jewelry, watches, and footwear. Products are largely manufactured by vendors in emerging markets, thereby allowing companies in the industry to primarily focus on design, wholesaling, marketing, supply chain management, and retail activities.

SOCIAL CAPITAL

Management of Chemicals in Products

- › What are the company's processes to maintain compliance with restricted substances regulations?
- › How does the company manage risks and/or hazards associated with chemicals in its finished products?
- › How does the company monitor and manage potential risks and/or hazards associated with chemicals in its finished products?

BUSINESS MODEL & INNOVATION

Environmental Impacts in the Supply Chain

- › How is the company monitoring the wastewater management of its supplier facilities?
- › What environmental issues in the supply chain is the company making the most progress on? Which are most challenging to address?
- › What risks are associated with discharging chemicals at supplier facilities, and what is the company doing to mitigate these risks?
- › What actions are the company taking to increase transparency into environmental impacts in its supply chain? What is the company's progress?
- › What wastewater discharge requirements are in place at supplier facilities?

Labor Conditions in the Supply Chain

- › What is the company's strategy to ensure fair treatment and safety of workers at supplier facilities?
- › What is the company's approach to auditing supplier labor and safety conditions, and how does the company see this evolving in the future?
- › What actions are the company taking to increase transparency into labor conditions in its supply chain? What is the company's progress?
- › What are the greatest labor, environmental, health, and safety risks within the company's supply chain? How does the company see or expect to see them manifest, and what is the company doing to mitigate these risks?
- › What social or labor issues in the supply chain is the company making most progress on? Which issues is the company finding most challenging to address?

Raw Materials Sourcing

- › What risks are associated with the raw materials that the company is most reliant on? What steps are the company taking to mitigate these risks?
- › To what extent are raw materials certified to environmental and/or social sustainability standards, and to which standards?

CONTEXTUAL CONSIDERATIONS

Number of (1) Tier 1 suppliers and (2) suppliers beyond Tier 1

APPLIANCE MANUFACTURING



The **Appliance Manufacturing** industry includes companies involved in the design and manufacturing of household appliances and hand tools. The industry sells and manufactures products around the world, primarily selling products to consumers through retail locations.

SOCIAL CAPITAL

Product Safety

- › What is the company's approach to product safety and preventing the recall of products?
- › What processes does the company have in place to identify and manage safety risks associated with the use of its products?
- › What safety issues or regulations present the most significant risks and opportunities? How does the company see or expect to see them manifest, and what is the company doing to mitigate these risks?

BUSINESS MODEL & INNOVATION

Product Lifecycle Environmental Impacts

- › How does the company assess the environmental impact of its products, and integrate energy efficiency and other sustainability attributes into product design?
- › What strategies has the company implemented to reduce the end-of-life impacts of its products?

CONTEXTUAL CONSIDERATIONS

Annual production

BUILDING PRODUCTS & FURNISHINGS



The **Building Products & Furnishings** industry comprises companies involved in the design and manufacturing of home improvement products, home and office furnishings, and structural wood building materials. The industry's products include flooring, ceiling tiles, home and office furniture and fixtures, wood trusses, plywood, paneling, and lumber. Companies typically sell their products through distribution channels to retail stores or through independent or company-owned dealerships.

ENVIRONMENT

Energy Management in Manufacturing

- › How is the company managing energy consumption and related price and supply risks?
- › What strategies are in place to increase energy efficiency in manufacturing and manage the company's energy mix?

SOCIAL CAPITAL

Management of Chemicals in Products

- › How does the company assess and manage risks associated with chemicals in products?
- › How has the company performed in meeting volatile organic compound (VOC) emissions and content standards?
- › What steps does the company take to increase its portfolio of products that meet volatile organic compound emissions and content standards?

BUSINESS MODEL & INNOVATION

Product Lifecycle Environmental Impacts

- › How does the company manage and account for the lifecycle environmental impacts of its products?
- › How does the company manage recovery and recycling of end-of-life materials?

Wood Supply Chain Management

- › What is the company's strategy to manage risks associated with wood fiber production?
- › How does the company incorporate materials certified to forestland and wood fiber standards into its supply chain?

CONTEXTUAL CONSIDERATIONS

Annual production

Area of manufacturing facilities



The **E-Commerce** industry is composed of firms that provide an online marketplace for other firms or individuals to sell their goods and services, as well as retailers and wholesalers that provide an exclusively web-based platform for consumers to buy goods and services. Firms in this industry sell to consumers as well as to other businesses. Because of the accessibility of e-commerce sites, the industry is a global marketplace for buyers and sellers. *Note: The industry scope exclusively applies to “pure-play” e-commerce operations and does not address the manufacturing or brick-and-mortar retail operations of companies. Many consumer goods manufacturers and retailers have incorporated, or are in the process of incorporating, an e-commerce component to their business. SASB has separate standards for the Multiline and Specialty Retailers & Distributors (CG-MR); Apparel, Accessories & Footwear (CG-AA); and Toys & Sporting Goods (CG-TS) industries. Depending on the specific activities and operations of firms in the aforementioned industries, disclosure topics and accounting metrics associated with the E-Commerce industry standard may also be relevant.*

ENVIRONMENT

Hardware Infrastructure Energy & Water Management

- › What is the company's strategy to optimize energy use at data centers and protect against power grid disruptions?
- › What water-related risks is the company exposed to near its data centers? How is the company prepared to mitigate these risks?
- › How does the company integrate environmental considerations into its strategic planning for data centers?

SOCIAL CAPITAL

Data Privacy & Advertising Standards

- › How does the company manage legal risks and public sentiment associated with collecting and sharing user data?
- › What is the company's approach to collecting and using customer data for secondary purposes?

Data Security

- › How does the company identify and address vulnerabilities and threats as well as prevent data security breaches?

HUMAN CAPITAL

Employee Recruitment, Inclusion & Performance

- › What is the company's strategy to engage employees and reduce turnover?
- › What initiatives does the company have in place to encourage equitable employment of people from different gender and racial/ethnic groups, especially at management and technical levels? How does this vary by region?
- › What is the company's reliance on visa holders to fill technical positions?

BUSINESS MODEL & INNOVATION

Product Packaging & Distribution

- › How does the company increase efficiency of its logistics operations and decrease the cost and environmental impacts of shipping?
- › What efforts does the company take to optimize packaging to minimize environmental impacts?

CONTEXTUAL CONSIDERATIONS

Entity-defined measure of user activity

Data processing capacity, percentage outsourced

Number of shipments

HOUSEHOLD & PERSONAL PRODUCTS



The **Household & Personal Products** industry comprises companies that manufacture a wide range of goods for personal and commercial consumption, including cosmetics, household and industrial cleaning supplies, soaps and detergents, sanitary paper products, household batteries, razors, and kitchen utensils. Household and personal products companies operate globally and typically sell their products to mass merchants, grocery stores, membership club stores, drug stores, high-frequency stores, distributors, and e-commerce retailers. Some companies sell products through independent representatives rather than third-party retail establishments.

ENVIRONMENT

Water Management

- › How is the company increasing water efficiency and managing water use? What are the major risks associated with the company's water use?
- › What strategies does the company employ to minimize potential water supply disruptions or cost increases, particularly in water stressed regions?

SOCIAL CAPITAL

Product Environmental, Health, and Safety Performance

- › What strategies does the company employ to monitor, reduce, or eliminate the use of regulated or potentially harmful substances?
- › How does the company assess and manage risks associated with materials and chemicals in products?
- › What processes does the company have in place to identify and manage emerging materials and chemicals of concern?
- › How does the company integrate green chemistry principles into its product design and development?

BUSINESS MODEL & INNOVATION

Packaging Lifecycle Management

- › How does the company incorporate recycled or remanufactured materials into its packaging?
- › What strategies is the company implementing to optimize packaging and reduce its environmental impact?

Environmental & Social Impacts of Palm Oil Supply Chain

- › How does the company manage social and environmental externalities of its palm oil supply chain?
- › What efforts does the company take to responsibly source palm oil?

CONTEXTUAL CONSIDERATIONS

Units of products sold, total weight of products sold

Number of manufacturing facilities

MULTILINE AND SPECIALTY RETAILERS & DISTRIBUTORS



The **Multiline and Specialty Retailers & Distributors** industry encompasses a variety of retailing categories such as department stores, mass merchants, home products stores, and warehouse clubs, as well as a smaller segment of distributors like electronics wholesalers and automotive wholesalers. Common to these companies (except for the distribution segment) is that they manage global supply chains to anticipate consumer demands, keep costs low, and keep products stocked in their brick-and-mortar storefronts. This is a highly competitive industry, in which each company category generally has a small number of key players, characterized by generally low margins. The relatively substitutable nature of retail makes companies in this industry especially susceptible to reputational risks.

ENVIRONMENT

Energy Management in Retail & Distribution

- › How is the company managing energy consumption and related price and supply risks?
- › What strategies are in place to increase energy efficiency and manage the company's energy mix?

SOCIAL CAPITAL

Data Security

- › How does the company identify and address vulnerabilities and threats as well as prevent data security breaches?

HUMAN CAPITAL

Labor Practices

- › What is the company's sensitivity to future adjustments in minimum wage, and how does this vary by region?
- › What is the company's strategy to lower in-store employee turnover and associated costs?
- › What is the company's strategy to ensure compliance with labor laws?

Workforce Diversity & Inclusion

- › What initiatives does the company have in place to encourage equitable employment of people from different gender and racial/ethnic groups, across all employees and specifically at the management level? How does this vary by region?
- › What is the company's strategy to ensure compliance with labor and employment discrimination laws?

BUSINESS MODEL & INNOVATION

Product Sourcing, Packaging & Marketing

- › How is the company positioning itself to capture the growing market for sustainable products?
- › How is the company working with its suppliers to improve the environmental and social impacts of the products it sells?
- › How does the company assess and manage risks related to chemicals in its products?
- › How does the company work with its suppliers to optimize packaging use and minimize costs?

CONTEXTUAL CONSIDERATIONS

Number of: (1) retail locations and (2) distribution centers

Total area of: (1) retail space and (2) distribution centers

TOYS & SPORTING GOODS



The **Toys & Sporting Goods** industry comprises two distinct segments that produce leisure products: companies that manufacture toys and games, and companies that manufacture sporting and athletic goods, such as bicycles, golf clubs, fitness equipment, and other similar products. Companies in this industry primarily sell their products to consumers through retail stores. The level of manufacturing integration varies among and within segments of the industry; manufacturing is based primarily in Asia, with China accounting for a majority of production.

SOCIAL CAPITAL

Chemical & Safety Hazards of Products

- › What is the company's approach to product safety and to preventing the recall of products?
- › What safety issues or regulations present the most significant risks and opportunities? How does the company see or expect to see them manifest, and what is the company doing to mitigate these risks?
- › How does the company assess and manage risks associated with chemicals in its products?

BUSINESS MODEL & INNOVATION

Labor Conditions in the Supply Chain

- › How does the company assess and resolve issues of non compliance with social responsibility codes of conduct in its manufacturing facilities?
- › What strategies is the company implementing to ensure worker health and safety and increase transparency across its supply chain?

CONTEXTUAL CONSIDERATIONS

Annual production

**Number of manufacturing facilities,
percentage outsourced**