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An Integrated Approach to Materiality

The IIRC's Global Conference
30 November 2020

Sustainable value creation in an interconnected world
The IIRC's Global Conference 2020

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- Member of the EFRAG PTF on Non-financial Risks and Opportunities and Linkage to Business Model

About this session

- Make the point on the evolution of the concept of materiality
- Showcase best practice examples of materiality disclosure and the related investor assessment
- Provide a multi-perspective examination of this complex and controversial notion

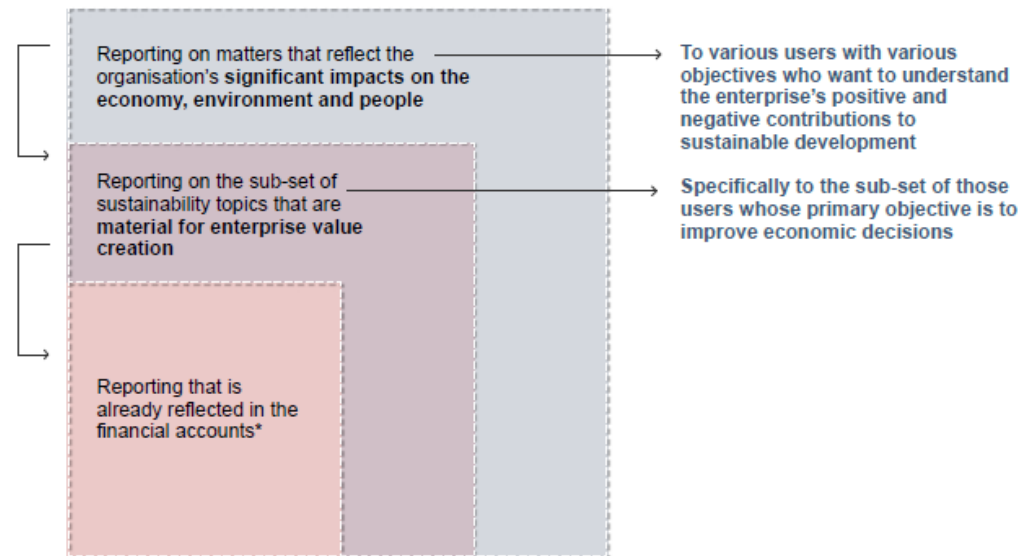
Materiality: where do we stand?

Corporate Reporting Dialogue



Figure 1. Dynamic materiality¹

Dynamic materiality: sustainability topics can move – either gradually or very quickly



*Including assumptions and cashflow projections

Materiality: what does the <IR> Framework say?

“To be most **effective**, the materiality determination process is **integrated into the organization's management processes and includes regular engagement with providers of financial capital and others** to ensure the integrated report meets its primary purpose”

(International <IR> Framework, para. 3.20, p. 18, 2013)

Speakers



Dr. Laura Girella
Technical and
Research Manager
IIRC



Prof. Dr. Axel Haller
Head of the Financial
Accounting and Auditing Dept.
University of Regensburg



Lena de Stigter
Planning and Control
Officer
FMO



Jared Mann
Managing Director
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Prof. Dr. Axel Haller
Department of Financial Accounting and Auditing
**FACULTY OF BUSINESS, ECONOMICS AND
INFORMATION SYSTEMS**

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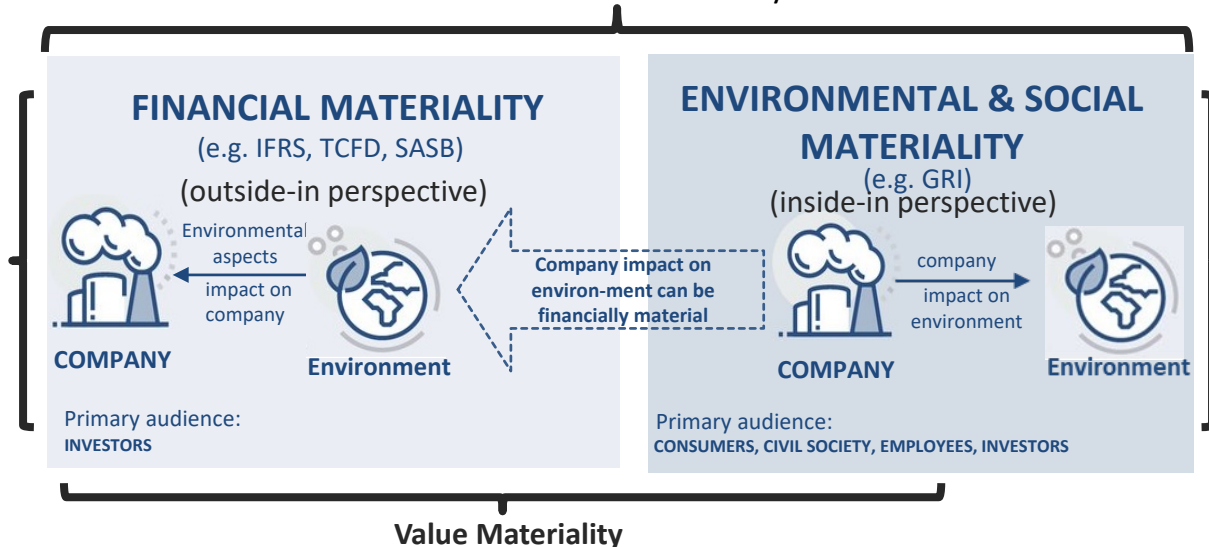


University of Regensburg

Materiality – Concepts and Definitions

Double materiality (EU Directive, 2019/C 209/01, 2.2): taking into account **both sides** of materiality

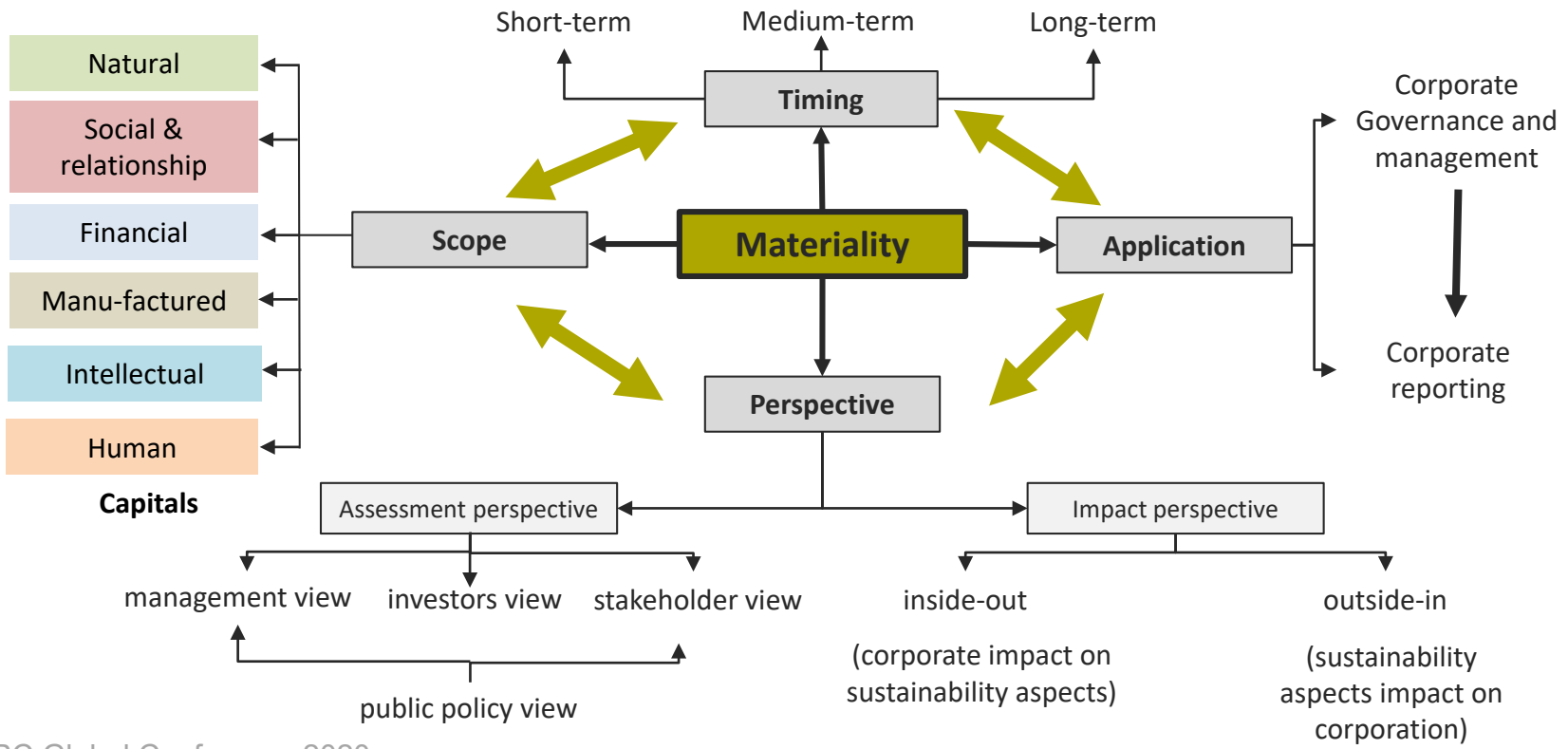
IFRS: “.... information is material if omitting, misstating or obscuring it **could reasonably be expected to influence decisions that the primary users of financial reports** make on the basis of those reports...” (IASB Conceptual Framework 2.11)



GRI: Material topic: “ ... topic that reflects a **reporting organization’s significant economic, environmental and social impacts**; or that substantively influences the assessments and **decisions of stakeholders....** (GRI 101, 1.3)

IIRC: Material matters: “ ...matters that substantively affect the **organization’s ability to create value** over the short, medium and long term.” (IIRC Framework, 3.17)

Materiality – Dimensions



Materiality in a nutshell

- Materiality is a core principle of corporate reporting in order to create decision useful information.
- Materiality is absolutely necessary for the report preparers as well as report users in order to prevent an information overload and/or information noise.
- Materiality assessment is company specific and widely judgmental.
- There are at least four different concepts of materiality (financial, ESG, value, double materiality) that are differently followed by various reporting organizations and the EU.
- The interpretation of materiality has several dimensions (perspective, scope, timing, and application).
- Materiality assessment needs to be carried out on a continuous basis and must be adopted to the continuously changing environment of an entity.
- Materiality is not primarily an issue of external reporting but also of internal control, management, and governance.



FMO'S MATERIALITY ASSESSMENT

A PRACTICE EXAMPLE

November 2020 | Lena de Stigter

FMO contributes to:



FMO | The Dutch Entrepreneurial Development Bank



Since 1970 we have been a driving force behind investments empowering local entrepreneurs in emerging markets

Our key sectors



Agribusiness, Food & Water.



Energy



Financial Institutions

Our staff



601 employees
total number of employees

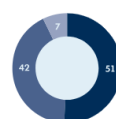


57 different nationalities



42% of women in senior and middle management

Ownership structure %



public- private ownership structure

(51% Dutch state | 42% Dutch banks | 7% Employers' associations, trade unions, corporate individual investors)



licensed bank, supervised by the Dutch Central Bank



funding through bonds

including Sustainability Bonds and Green Bonds

Ratings

FitchRatings



oekom research

ISS ESG

AAA outlook stable

(Fitch Ratings and Standard & Poor's)

industry leading sustainability ratings

Sustainalytics relative performance (5th/ 934 banks) and ISS ESG rating (Prime)

The materiality assessment helps us to determine...



Financial Materiality

by identifying the risks and opportunities that can impact our organizations' value creation.



Environmental and Social Materiality

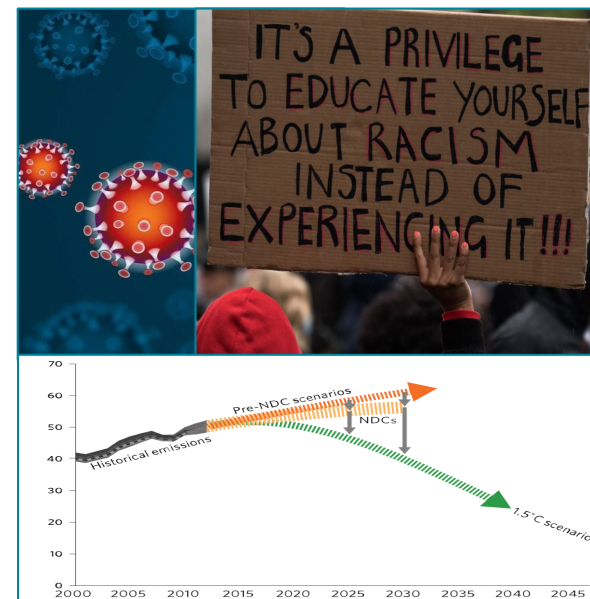
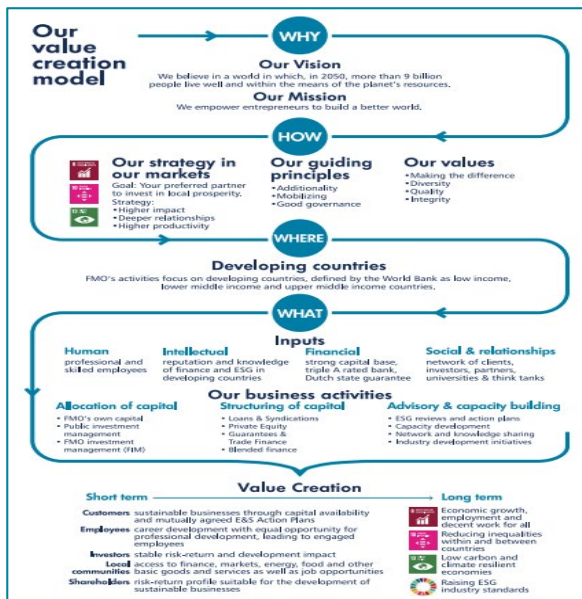
by identifying the topics through which we have an impact on society or the environment.

Our materiality assessment approach

1. The **scope** of our materiality assessment is rooted in our value creation model.

2. We identify our **core material topics** based on our strategic & operational focus and impact objectives.

3. We identify our **dynamic material topics** based on assessments of emerging risks and opportunities



Survey Design

Dynamic Topics

- Open questions
- Emerging risks & opportunities that impact FMO

Core Strategic Topics

- Pre-defined list
- How FMO creates impact
- Rating our performance

Reporting & Engagement

- Quality & Transparency
- How to improve our engagement?

Integrating materiality in our operations



Materiality assessment as a continuous process

- that feeds into our stakeholder engagement processes
- that helps us to reflect on topics that can affect our value creation
- that informs our strategic planning & risk assessment
- that guides our monitoring and integrated reporting activities
- that helps us to be focused, transparent and clear in our communication



Environmental Impact



Social Impact



Corporate Governance



Economic Impact



Jared Mann
Managing Director
Neuberger Berman

ESG Investing Overview

Our Comprehensive Investment Offering Spans All Major Asset Classes

Investing \$374bn for clients globally

MULTI-ASSET CLASS SOLUTIONS

PUBLIC MARKETS \$289bn	EQUITIES		FIXED INCOME	HEDGE FUNDS & LIQUID ALTERNATIVES		REAL ESTATE
	FUNDAMENTAL	QUANTITATIVE		FUNDAMENTAL	QUANTITATIVE	
	Global U.S. EAFE / Japan Emerging Markets - China Thematic Strategies MLPs	Global U.S. Emerging Markets Custom Beta	Global Investment Grade Global Non-Investment Grade Emerging Markets Municipals Multi-Sector Currency	Hedge Funds Liquid Alternatives	Commodities Options Global Macro Risk Parity Risk Premia	Global U.S. Long/Short – Almanac
	\$101bn		\$168bn	\$18bn		\$2bn
PRIVATE MARKETS \$85bn	PRIVATE EQUITY		PRIVATE CREDIT	SPECIALTY ALTERNATIVES		PRIVATE REAL ESTATE
	Primaries Co-Investments Secondaries Specialty Strategies Alternative Asset Manager Stakes – Dyal		Private Debt Credit Opportunities Special Situations Residential Loans Specialty Finance European Private Loans	Insurance-Linked Strategies Late Stage Pre-IPO SPACs		Private Real Estate – Almanac Real Estate Secondaries
	\$69bn		\$9bn	\$3bn		\$4bn

1. As of September 30, 2020

ESG INTEGRATION

GLOBAL RESEARCH CAPABILITIES

DATA SCIENCE

Four A's to Neuberger Berman's ESG Integration Framework

Material ESG factors are an important driver of long-term returns, offering potential for both opportunity and risk mitigation

We integrate ESG factors into the investment process to varying degrees, with clear taxonomy to guide investors:



Avoid*

Ability to exclude particular companies or whole sectors from the investable universe

Strategy with Exclusions
In offering documents



Assess

Consider the valuation implications of ESG risks and opportunities alongside traditional factors in the investment process

"ESG Integrated"
In offering documents



Amplify

Focus on 'better' companies based on environmental, social and governance characteristics

"Sustainable"
In name of strategy



Aim For Impact

Seek to intentionally generate positive social and environmental impact alongside a financial return

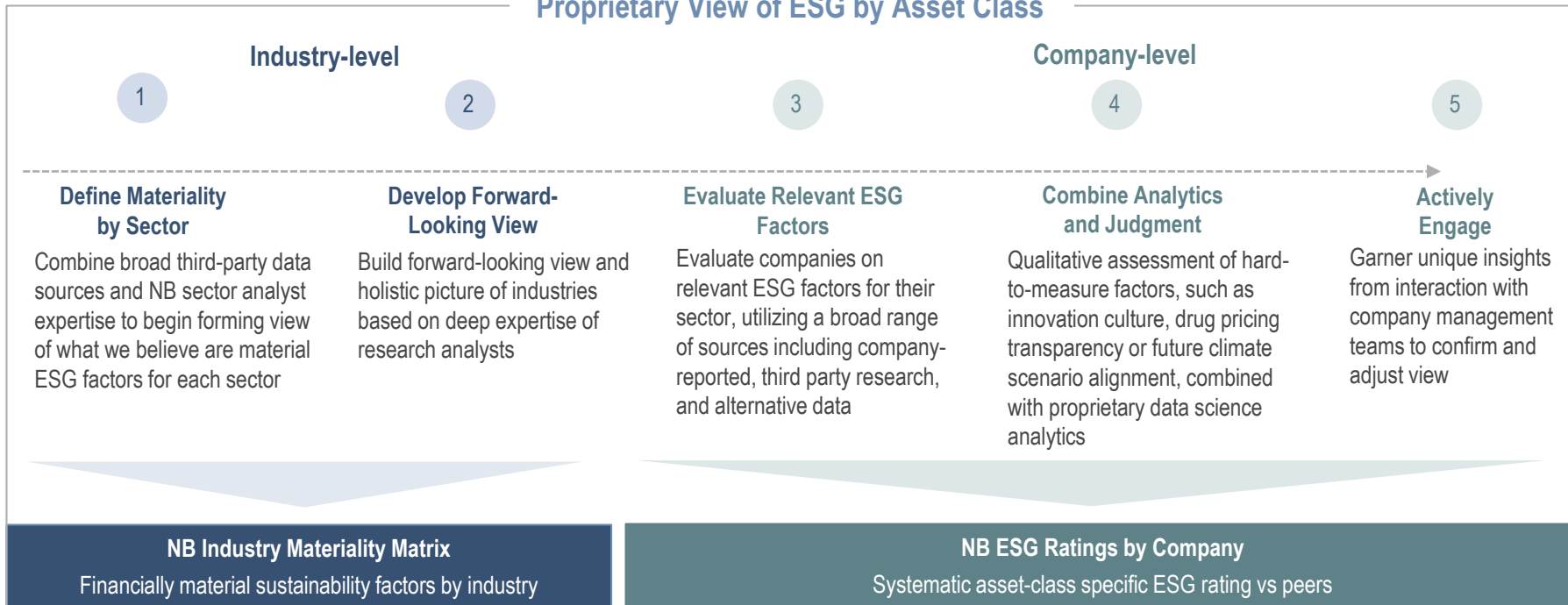
"Impact"
In name of strategy

* Avoidance screens can be combined with other ESG integration strategies based on client requests.
Note: Investment strategies' ESG integration approaches may evolve over time.

ESG Investment Process Emphasizes Identifying Financially Material ESG Factors

Research teams leverage proprietary in-house research tools to develop a data-driven, differentiated view

Proprietary View of ESG by Asset Class



This material is intended as a broad overview of the portfolio managers' style, philosophy and process and is subject to change without notice. The portfolio managers' views may differ from those of other portfolio managers as well as the views of Neuberger Berman. Portfolio characteristics are subject to change without notice. See Additional Disclosures at the end of this piece, which are an important part of this presentation.

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Any Questions?