Chasing Intel and AstraZeneca: the best and worst ESG stocks

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As investors increasingly focus on environmental, social and corporate governance benchmarks, here are the top and bottom performers, according to a new ratings portal

Investors, it seems, care more about environmental, social and corporate governance benchmarks than ever before.

The market for ESG-oriented assets skyrocketed from $5tn in 2007 to $42tn in 2012, making up roughly a quarter of all global financial holdings, according to sustainability consultants BSR (pdf).
Last month, S-Network Global Indexes and Thomson Reuters launched a new ESG ratings portal scoring more than 4,600 public companies on measurements including emissions reduction, board structure and human rights.

The ratings – compiled from regulatory filings, official sanctions or fines, NGO boycotts, annual reports, company websites and news feeds – are aimed at judging disclosure and performance among industry and regional peer groups. This means an oil company or so-called "sin stock" isn't downgraded for the overall impact of its core business, but is instead compared to similar companies.

The lowest-rated companies fail to disclose key risks. Companies that perform poorly but are more willing to disclose are rated slightly higher than those that disclose nothing at all. For investors, it all comes down to risk, says Herb Blank, managing director of ESG solutions at S-Networks Global Indexes, and investors have to ask what non-disclosing companies are trying to conceal. "You cannot manage risk you cannot measure," he says.

We looked through the Thomson Reuters Corporate Responsibility Ratings (TRCRR) ESG Portal to highlight some of the best, middle and worst performers.

Top performers

AstraZeneca: ESG 85.15
The UK-based pharmaceutical company has one of the highest overall ratings. Blank cited AstraZeneca's conscientious attitude towards resource reduction as a major factor in its high rating. Among other things, the company has comparatively "scant" levels of discharges into water systems, resource reduction metrics that are consistently rated first and second in its industry, and the lowest level of greenhouse gas emissions per dollar of revenue among companies that reported the data.

Intel: ESG 83.4
Following a late-2000s advertising misstep involving a print ad that was widely read as racist and was ultimately pulled from circulation, Intel has worked hard on public relations. It has had no other major controversies in recent history. Strong scores across the board – as well as the company's lack of anti-takeover provisions and an audit committee independent from management – helped push the semiconductor giant to the top of the pile for US-rated companies.

Intel's director of corporate responsibility, Michael Jacobsen, points out that Intel has exceeded targets for greenhouse gas emission reductions, improved its operational performance, invested $300m annually in employee development and removed conflict minerals from its products. "It isn't about doing what is legally required, it's about doing the right thing for shareholders and society," he says.

Middle of the pack

Apple: ESG 69.6
High scores in environment and governance couldn't outweigh Apple's poor scoring in the social category (29.8). The social pillar takes labor practices into account and was likely weighed down by controversy over its Chinese factories.

Interpublic: ESG 50.5
One of the big four global advertising firms, New York-based Interpublic, has middling scores in all three categories. However, Blank says, the company's "staggering" six anti-takeover provisions dragged down its overall score. Also, unlike the majority of its regional peers, Interpublic has no separation between its chairman and CEO – both positions are filled by Michael I. Roth.

Low performers

EchoStar Corp: ESG 32.6
Non-disclosure is certainly the story behind Colorado-based cable company EchoStar's rating, among the lowest in the US. The firm failed to report on product responsibility or on employee health and safety, among other things, Blank says. An EchoStar spokesperson responded via email: "The survey does not mean that EchoStar is not focused on social, corporate and environmental responsibility. It means we at EchoStar have yet to tell our story."

The company played a leading role in a 2012 telecommunications industry effort to voluntarily decrease energy consumption of set-top boxes, the spokesperson added. The effort will result in $1.5bn in annual electricity savings and reduce four power plants worth of carbon emissions, she claims.

Rex Minerals Ltd: ESG 32
The relatively small Australian mining and exploration company Rex Minerals received a low score for disclosing less than its peers in developed markets outside of the US. "These types of surveys are probably not appropriate for junior exploration companies," responds CEO Mark Parry. "Comparing Rex Minerals with, say, a producer like BHBP oversimplifies complex topics."

Rex's commitments to social responsibility come through community and stakeholder consultation, he claims, adding there is "a great deal of transparency about our proposed operations and processes". For example, he says, community engagement for one ongoing project has included input from an independent consultative committee, open days, site visits, social and environmental impact reports, community feedback and Q&A responses.

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