



Corporate Finance Institute®

Introduction to ESG Case Study

Assessing ESG Risks

You are a financial analyst asked to provide your assessment of an investment portfolio's risk exposure, and to specifically assess the risks of three different companies in three different industries. You will be provided some basic information on each business to inform your analysis.

You will be asked to provide insights into company risk exposure, in addition to providing recommendations on engagement principles that could support the management of these risks across the portfolio. You will specifically be asked the following:

- What do you think are the top material ESG risks facing the three-company portfolio?
- In terms of investment stewardship, what kind of engagement principles would you recommend to management? In other words, what investor objectives could help lower risk exposure across the portfolio?

Conventional Food Corporation (CFC)

CFC is a food distribution company that sells their own proprietary brands produced by private label manufacturers. They have three product categories, including branded bottled beverages, produce, and baked goods. Their distribution network heavily relies on third-party subcontractor drivers, totaling approximately 65% of their total drivers. The extent of their current ESG efforts include donating baked goods to bake sales at local schools and employee volunteerism days. Information on these efforts is anecdotal in nature, written in single sentences on their website.

Downtown Developers Inc. (DDI)

DDI is a commercial real estate development corporation that has had great success in providing mid-priced, premium office space to up-and-coming tech start-ups in metropolitan areas. Their largest project to date has been a downtown office park in a hip tourist neighborhood that brushes up against near the coastline. DDI's construction labor force, primarily comprised of recently immigrated new citizens, live inland from the coastal construction site, and rely on public transportation to get to the construction site each day. DDI knows tech companies think sustainability is important, and to satisfy their customers, they plan to install LED lights in all the new units of the office park. Their website mentions "eco-friendly" building supplies and appliances as demonstrative demonstration of their commitment to sustainability.

Premier Products (PP)

PP is an e-commerce site that both sells its own branded items and also facilitates the sales and distribution of third-party sellers. These third-party sellers include multi-national corporations, regional chains, boutique stores and home-based businesses. Although PP helps facilitate the sale and distribution of other company's products, they do not facilitate any returns or mediate any disputes between customers and third-party sellers. PP employees work in large warehouses and manage the fulfillment orders for both the private label business and third-party sellers, employee turnover in these warehouses is about 30%. Their website states their mission "is to create economic opportunity for businesses of all sizes" and their sustainability efforts include "using recyclable paper in their offices and encouraging customers to use paperless billing."