Introduction to ESG

Introduction to Environmental, Social, and Governance

This course is aimed to prepare you with the **knowledge needed to respond to environmental, social, and governance (ESG) inquiries and leverage this information to conduct more effective due diligence**, and make better investment decisions.

What…

is environmental social governance (ESG)?

How…

is info used to assess risk, reward, and management effectiveness?

How…

do stakeholder expectations influence corporate action?

What…

are key considerations for corporations/ investors?

About Your Instructors

Summit Strategy Group is a California-based corporate strategy and communications firm specializing in corporate communications, ESG and sustainability strategy and stakeholder engagement. Our services include corporate reputation, issues management, crisis communications, trends analysis, strategy development, project management and stakeholder identification and engagement. Our founding principle is that every client deserves and requires a custom-built team of the best talent: Agile thinkers equipped with precision tools that yield crucial insights necessary to navigate and succeed in today's constantly evolving landscape. Our unique business model allows us to deploy bespoke client teams of world-class talent when and where they are needed, and to scale according to client requirements.

Course Objectives

Explain what ESG is and its relevance to making financial decisions

Describe key environmental, social, and governance issues

Explain how stakeholders influence corporate ESG performance

Analyze ESG risks and opportunities

Assess ESG company performance using publicly available information

Translate ESG information to business intelligence

What Is ESG

What Is ESG

Environmental criteria addresses a **company's operations environmental impact, and environmental stewardship.**

Governance criteria refers to a **company's leadership & management philosophy, practices, policies, internal controls, and shareholder rights.**

Social criteria refers to **how a company manages relationships with and creates value for stakeholders.**

What Is ESG

ESG is used as a **framework to assess how a company manages risks and opportunities that shifting market & non-market conditions create.** These shifts include changes to:

- **Environmental Systems**
- **Social Systems**
- **Economic Systems**

Impact the entire landscape a company operates in.

ESG is **not about values.**

ESG is **about the ability to create & sustain long-term value in a rapidly changing world,** and managing the risks & opportunities associated with these changes.

What Is ESG

There is no universal categorization for ESG issues, and some **can be defined in different ways depending on the industry, company characteristics, and the business model.**

Diversity, Equity, and Inclusion (DEI)

Social Issue

Addressed through hiring practices, community engagement efforts, and procurement strategies.

What Is ESG

There is no universal categorization for ESG issues, and some **can be defined in different ways depending on the industry, company characteristics, and the business model.**

Governance Issue

A more diverse board/workforce leads to more informed decisions, supporting the acquisition of new customers & markets.

Diversity, Equity, and Inclusion (DEI)

Social Issue

Addressed through hiring practices, community engagement efforts, and procurement strategies.

An analyst must be able to breakdown the issues and assess how they impact performance and profitability.

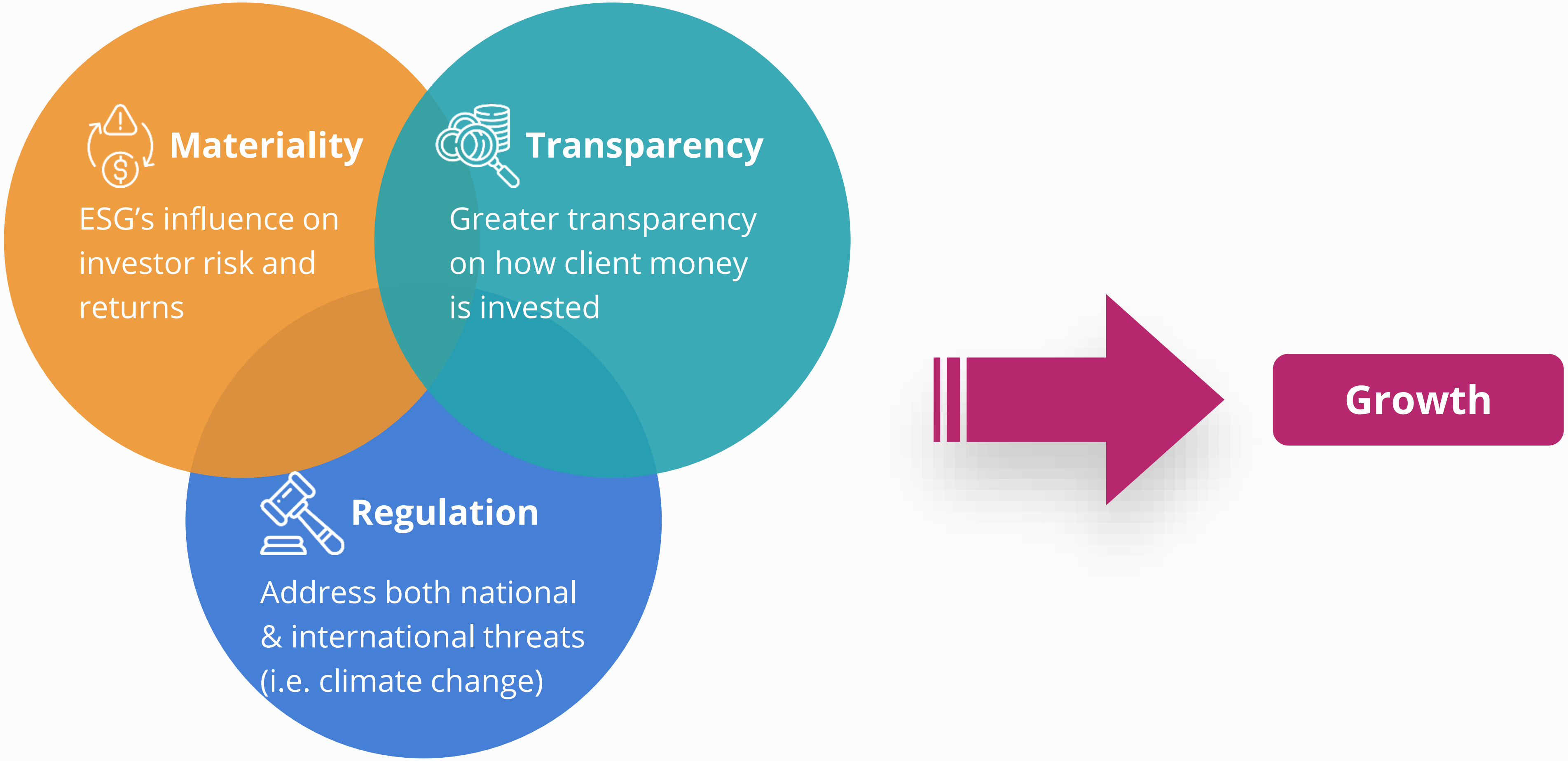
The History and Evolution of ESG

ESG is often used interchangeably with corporate social responsibility or corporate sustainability, however **ESG encompasses much more:**

1980s	1990s	2000-2010s	2020+
Environment, Health and Safety (EHS)	**Sustainability**	**Corporate Social Responsibility (CSR)**	**Environmental Social Governance (ESG)**
Based on the development of environmental & employee regulations.	Focused on reducing environmental impacts beyond legal requirements.	Corporate philanthropy and employee volunteerism used to align social issues.	Holistic concept related to competitive advantage and risk & reward management.

ESG’s Growth into the Mainstream

Three key factors in ESG’s growth into the mainstream:



Examples of ESG Incidents

Some high-profile examples of financially material ESG incidents, **which influenced greater client demand for transparency and regulator demand for ESG to be recognized as fiduciary duty,** include:

BP (2010)

BP's US Deepwater Horizon oil spill where BP received $53.8B in fines, clean-up costs, and local reparations.

Volkswagen (2015)

The company was charged €27.4B in penalties for rigging 11 million diesel vehicles to pass emissions tests.

Cambridge Analytica (2018)

Analytica harvested the personal data of 87 million Facebook users, resulting in FB losing billions in market value.

ESG vs. SRI vs. Impact Investing vs. Green Bonds

There are several types of sustainable investing:

Socially Responsible Investing (SRI)

Potential investments are screened according to specific ethical guidelines. May include issues like gambling, tobacco, etc.

Vanguard FTSE Social Index

SDRP S&P 500 Fossil Fuel Reserve

Impact Investing

Key objectives are positive social & environmental outcomes, not necessarily shareholder returns.

TIAA-CREF Social Choice Bond holds a bond that helped provide vaccinations to 44 million children.

Green Bonds

A bond designed to support projects on climate change and environmental stewardship.

A company with a mature ESG presence would be more likely to issue a green bond vs. a company without ESG presence.

ESG

Measure of greater risk and reward managements.

iShares MSCI KLD 400 Social ETF focuses on companies with mature ESG strategies.

Why Is It Important

ESG has a significant positive impact on **fundamental business issues** relevant to the long-term success of any company across industries:

- **Corporate Reputation**
- **Risk Reduction**
- **Opportunity Management**
- **Culture & Intrinsic Value**

Why Is It Important

ESG has a significant positive impact on **fundamental business issues** relevant to the long-term success of any company across industries:

Corporate Reputation

Risk Reduction

Opportunity Management

Culture & Intrinsic Value

ESG can enhance a company's **license to operate** making it easier to accomplish business objectives and respond to crisis scenarios with key stakeholder groups.

In the Cambridge Analytica (2018) case, Facebook lost billions in market value **due to their tarnished reputation** in managing cyber security attacks.

Why Is It Important

ESG has a significant positive impact on **fundamental business issues** relevant to the long-term success of any company across industries:

Corporate Reputation

Risk Reduction

ESG helps identify **immediate & long-term risks** (e.g. material and labor availability, evolving regulations) depending on the industry and business model.

A food production company in the Western United States is **dependent on a large local labor force** to produce & distribute their products, and highly susceptible to natural disasters that occur due to climate change.

Opportunity Management

Culture & Intrinsic Value

Why Is It Important

ESG has a significant positive impact on **fundamental business issues** relevant to the long-term success of any company across industries:

Corporate Reputation

Risk Reduction

Opportunity Management

Culture & Intrinsic Value

Shifting market & non-market conditions can expose **unmet needs for new products/services, unserved or underserved customer bases,** and strategic relationships for addressing ESG issues.

Unilever's ESG efforts in emerging markets have resulted in **greater profitability & market penetration**, as well as positive societal impact as they provide wide range of training and support to independent stores, kiosks, and microbusinesses in the area.

Why Is It Important

ESG has a significant positive impact on **fundamental business issues** relevant to the long-term success of any company across industries:

Corporate Reputation

Risk Reduction

Opportunity Management

Culture & Intrinsic Value

ESG maturity is an indicator of a company's commitment to building a high performing, **purpose-driven workforce and inclusive culture.**

Integrating ESG factors into valuation allows for greater insight into intangible factors: culture, talent recruitment & retention, operational excellence and risk, that **can improve investment outcomes.**

Why Is It Important

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- **Corporate Reputation**
- **Risk Reduction**
- **Opportunity Management**
- **Culture & Intrinsic Value**

- **Enhanced customer & investor acquisition**
- **Reduced disruptions & losses**
- **Greater workforce productivity & org. resilience**
- **Identification of new markets/customers, products/services, revenue streams**

ESG Factors

ESG Factors

Environmental Issues

Social Issues

Governance Issues

All have a material impact on a wide spectrum of industries.

Environmental Factors

Environmental Issues

- Climate Change
- Natural Resource Scarcity
- Pollution & Waste

Environmental Factors

Ultimate Risk Accelerant

Climate Change

- Worsens both conventional & ESG-related risks.
- Natural disasters due to rising temperatures present significant risks.
- **E.g.** for a REIT climate change presents a portfolio risk to all CRE. Risk assessments should account for impact on the asset, as well as the insurance & maintenance costs.

Environmental Factors

Natural Resource Scarcity

Changing environmental conditions have increased the depletion of natural resources, which have become more important to stakeholders.

E.g. when conducting due diligence for a multinational food company, one of the material risks to account for would be the depleting global water supplies.

Environmental Factors

Pollution & Waste

- Can cause reputational risks, which influences product R&D, retail expectations and consumer requirements.
- Pollution can also cause health concerns that influence license to operate, which can have legal & regulatory ramifications.
- **E.g.** polluted beaches have an impact on local tourism, travel, leisure industries. Analysts responsible for capital allocation should monitor waste management.

Environmental Factors

Pollution & Waste

Natural Resource Scarcity

Climate Change

Environmental factors may not impact the company/portfolio directly, but it **will have a material impact on key stakeholders** (customers, consumers, or suppliers).

Impact of Environmental Factors on Corporations

Certain industries are more exposed to environmental issues compared to others.

Climate Change

Physical Risks

Transition Risks

Human Risks

Impact of Environmental Factors on Corporations

Physical Risks

Tangible, quantifiable impacts

- Climate change can physically impact company assets & surrounding infrastructure, and, consequently, key stakeholders.
- These changes also influence supply & demand as resource needs change amidst these conditions.
- **E.g.** rising tides and flooding affect coastal communities and impact local distribution infrastructure and real estate values.

Impact of Environmental Factors on Corporations

Transition Risks

Market & non-market shifts

Risks include shifts in climate & environmental policy, associated technologies, and changing consumer preferences.

E.g. multinational invests in a fleet of diesel trucks without following evolving federal & local legislation in key markets. When carbon taxes are passed in key markets, these assets could now be considered sunk costs/liabilities.

Impact of Environmental Factors on Corporations

Human Risks

Labor force & social consequences

Severe weather, rising temperatures and natural resource scarcity will result in certain regions being unlivable.

E.g. mass migration due to the adverse living conditions could risk the viability of certain geographic markets, local labor force availability, and required infrastructure.

Impact of Environmental Factors on Corporations

Human Risks

Labor force & social consequences

Transition Risks

Market & nonmarket changes

Physical Risks

Tangible, quantifiable impacts

Coastal Community

- **Human Risks:** Labor force migration due to economic & health risks
- **Transition Risks:** Local businesses that rely on this labor force deteriorate
- **Physical Risks:** Local infrastructure damaged by climate change

Social Factors

There are a wide-range of social factors to consider, including:

Community Engagement

Responsible Sourcing

However, the following issues present significant risks to a wide range of industries:

Human Capital Management

Product/Service Safety

Human Rights/Labor Management

Regulatory bodies call for **greater disclosure** regarding these issues.

Social Factors

Human Capital Management

Skilled labor shortage

Uneven wage growth

Technology & evolving market trends

Large investors (i.e. BlackRock) demand more comprehensive disclosures on how companies are building the skills of their workforce to improve bottom lines, especially in:

- Hi-Tech
- Finance
- Consulting

In August 2020, the SEC deemed human capital management as a significant material risk and greater disclosure requirements will soon be a part of standard financial reporting.

Social Factors

Product/Service Safety

Corporate reputation | **Customer retention & reparation costs** | **Regulatory fines**

are all at risk from supply chain oversight and product safety.

E.g. the direct cost for food product safety recalls is estimated to be approx. $10M per recall.[1]

[1] *USDA Recalls 2017-2020 (Rep.). (2021). Food Marketing Institute & Grocery Manufacturers Association.*

Social Factors

Human Rights/Labor Management

Investor interest in in the topic has grown in recent years due to some high-profile human rights abuses in brand name company supply chains.

E.g. Nike being accused of using forced labor in Asia led to:

- Boycotts from college teams
- Institutional customer losses
- Consumer protests

Corporate reputation & bottom-line

Labor protests are a growing issue and how a company manages its labor relationships is important to assess when gauging a company/industry.

Impact of Social Factors on Corporations

Employees

A mature ESG presence has a direct impact on:

- **Recruitment**
- **Engagement**
- **Retention**
- **Greater productivity & performance**

Bottom Line

Impact of Social Factors on Corporations

Employees

A mature ESG presence has a direct impact on:

- **Recruitment**
- **Engagement**
- **Retention**

Losses

Annual research shows that employee engagement has a direct impact on profitability:

Engaged Employees	VS	**Disengaged Employees**
Provide 21% greater profitability		Cost companies $450-550B/year

Impact of Social Factors on Corporations

Customers

Convenience

Price

Environmental Sustainability

Social Impact

Customer Experience

A company's **ESG maturity signals that they're engaged with customers' evolving needs** and unique pressures.

Impact of Social Factors on Corporations

Customers

Nike Example

Customers were pressured to cut business ties with Nike resulting in loss of revenue & advertising opportunities.

Unilever Example

They were able to access unserved customer bases by supporting local businesses that sold their products.

Impact of Social Factors on Corporations

Communities

The welfare of communities that supply:

- **Materials**
- **House assets**
- **Production sites**
- **Labor**

Are linked to welfare of company interests, enhancing the company's license to operate.

Impact of Social Factors on Corporations

Communities

The financial and in-kind contributions to community causes can provide insight into how corporations manage the ESG issues that threaten both the company and the local community.

Governance Factors

Governance covers a wide-range of issues that can also be considered environmental or social concerns depending on how a company categorizes it. For example:

Supply Chain Management

Environmental

Social

Governance Factors

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Supply Chain Management

Environmental

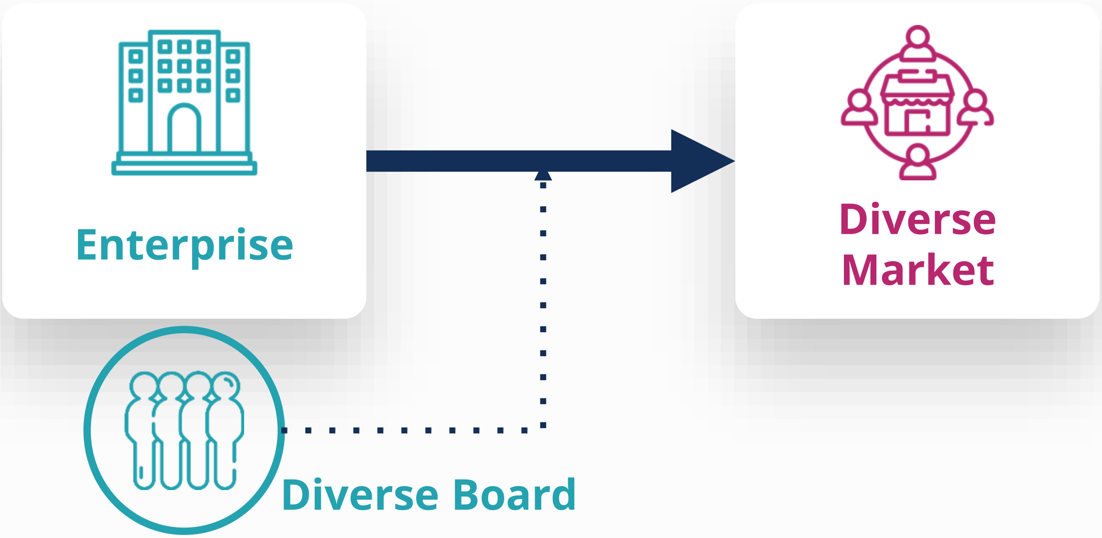
Social

Governance

Governance Factors

Board Quality, Diversity, and Effectiveness

- Qualifications
- Accountability measures
- Approach to counseling management
- Integration of ESG factors into business planning



Governance Factors

Board Quality, Diversity, and Effectiveness

- Qualifications
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Enterprise → Diverse Market

"Group-think"

Governance Factors

Board Quality, Diversity, and Effectiveness

- Qualifications
- Accountability measures
- Approach to counseling management
- Integration of ESG factors into business planning

DEI has become a critical benchmark for investors, who look for more comprehensive execution of DEI strategies.

Governance Factors

Reporting, Transparency, Business Ethics

ESG Reporting Standards

- Comprehensiveness
- Accuracy
- Consistency

→

- Investor confidence & valuations
- Consumer & stakeholder trust

Governance Factors

Reporting, Transparency, Business Ethics

Heightened public scrutiny in supply chains have made transparency the new normal:

Consumers → **Company**

Product sourcing
Production
Labor

Governance Factors

Reporting, Transparency, Business Ethics

Investors will consequently have to make assumptions about management quality when company/product info is limited.

Leading & most credible disclosure frameworks:

- Industry specific standards from the **Sustainable Accounting Standards Board (SASB).**
- Cross-industry recommendations from **Task Force for Carbon-related Financial Disclosures (TCFD).**
- **The Global Reporting Initiative (GRI)**

Governance Factors

Executive Compensation

Executive compensation structure tied to environmental/social benchmarks

+

ESG Committee at the Board level

is a sign that the company is fully integrating ESG issues into their enterprise risk management system and long-term planning.

Governance Factors

Executive Compensation

ESG Integration

Process of systematically integrating ESG issues into daily business operations.

Without ESG as a part of company governance. it isn’t possible to fully assess the risk exposure to these issues.

Impact of Governance Factors on Corporations

A company's general approach to governance, regardless of category that the issues are placed in, can either **enhance or damage the following outcomes:**

Stakeholder Trust & License to Operate

Consumer trust in corporations in general is at historic lows:

- B2B customers are now accountable for the behaviors of their supply chain partners.
- Employees no longer spend an entire career at a single company.

Impact of Governance Factors on Corporations

A company's general approach to governance, regardless of category that the issues are placed in, can either **enhance or damage the following outcomes:**

Stakeholder Trust & License to Operate

Enhanced governance directly impacts trust necessary for stakeholder confidence & license to operate:

E.g. Nike's **lack of accountability and due diligence** regarding contractors led to institutional customer losses and investor concerns about their license to operate both domestically & internationally.

Impact of Governance Factors on Corporations

A company's general approach to governance, regardless of category that the issues are placed in, can either **enhance or damage the following outcomes:**

Enhanced Risk Management

ESG integration provides greater sensitivity to changing conditions that could negatively impact operations, including:

Stakeholder Opposition

Boycotts

Government Fines & Litigation

Impact of Governance Factors on Corporations

A company's general approach to governance, regardless of category that the issues are placed in, can either **enhance or damage the following outcomes:**

Long-term Value Creation

ESG Factors → **Enterprise Risk Management** + **Corporate Strategy**

01 Supports organizational adaptability required to adjust to changing economic/environmental/social conditions.

02 Supports value creation by identifying new markets, customers, and unmet needs.

Impact of Governance Factors on Corporations

A company's general approach to governance, regardless of category that the issues are placed in, can either **enhance or damage the following outcomes:**

Long-term Value Creation

E.g. Unilever generates more than half their sales from emerging markets. Leveraging their existing distribution network and local infrastructure, the company is able to access a completely new segment of customers.

Materiality

Materiality

ESG issues most important to the long-term success of the business.

Materiality Analysis

Process to determine which ESG issues are both most important to the long-term success of the business and most important to stakeholders.

The stakeholder aspect provides an idea as to where there may be opposition and the extent of material risk associated with these stakeholder interests.

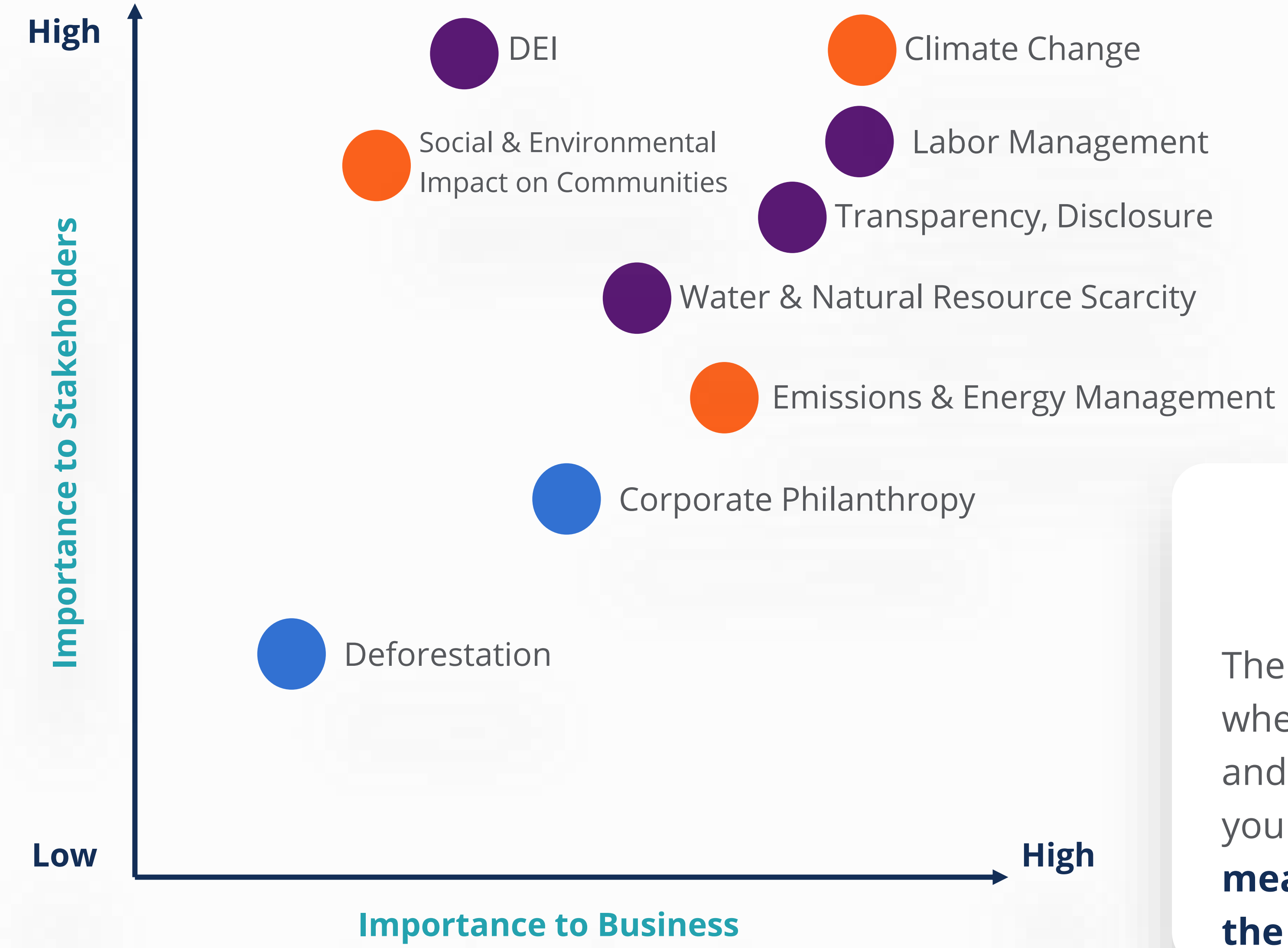
Materiality

The company doesn't have a mature ESG approach nor a holistic understanding of relevant ESG priorities that need to be addressed.

~~**Materiality Analysis**~~

~~Process to determine which ESG issues are both most important to the long-term success of the business and most important to stakeholders.~~

Materiality

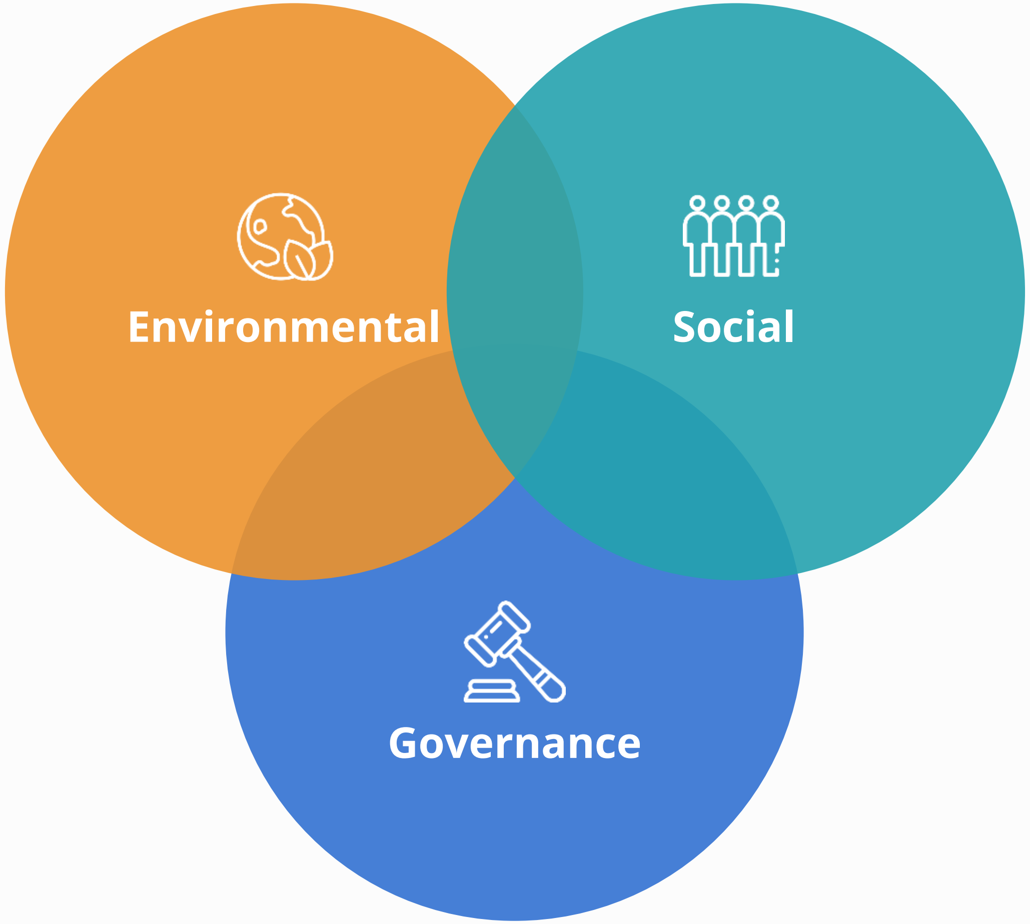


Importance of economic, environmental, and social impacts:

- Low
- Medium
- High

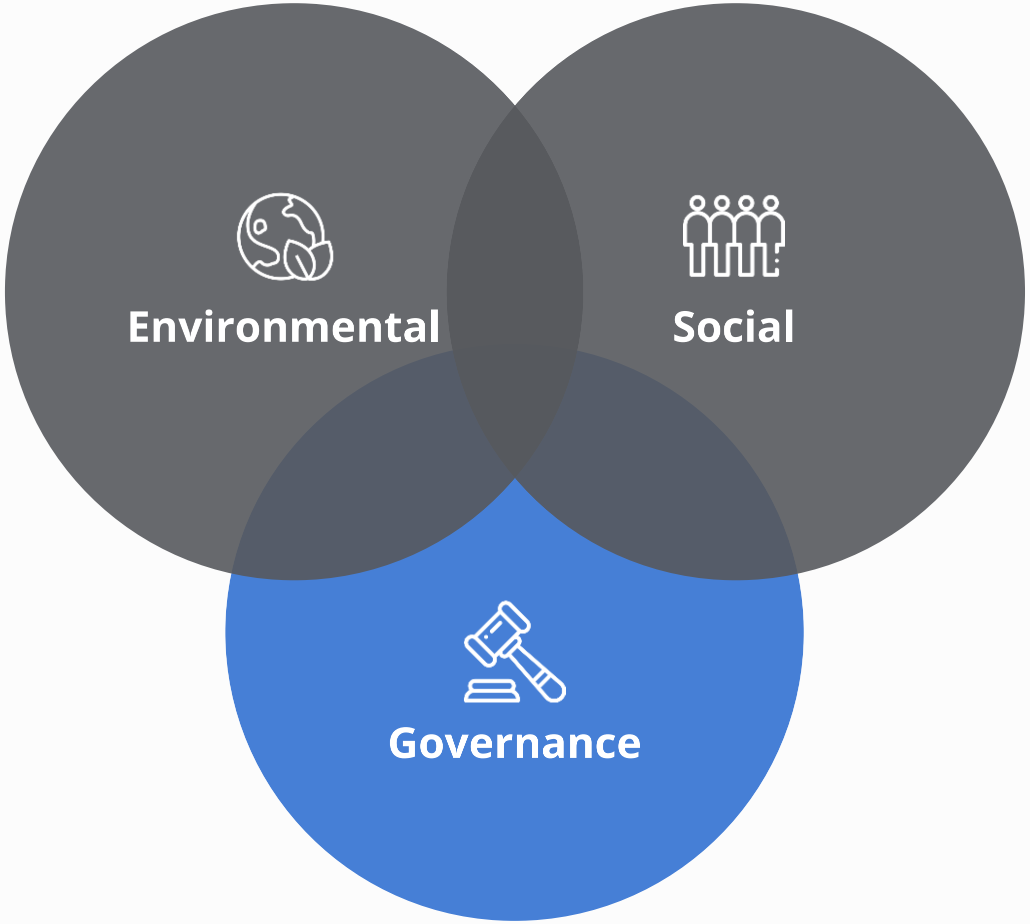
The assessment will give you an idea of where the greatest risks are to the business and the welfare of its key stakeholders so you can **leverage this as a tool for measuring the efficacy and maturity of the company's work on ESG in general.**

ESG Risks & Opportunities



ESG issues often converge to create **novel risks that reverberate across supply chains, independent industries, and entire communities.**

ESG Risks & Opportunities



The quality of governance is the determining factor in treating changing market and nonmarket contexts as both risks and opportunities.

ESG Risks & Opportunities

Comprehension & Identification ESG issues

- New customer bases/markets
- Product innovation
- New business models

Food Service Company

Raw material (i.e. animal protein) costs could rise due to water scarcity and rising temperatures could require the business to increase refrigeration.

Risks

Opportunities

As demand for plant-based proteins grow, the company could capitalize on this trend by integrating plant-based proteins into their key product offerings.

Corporate Pressures & Stakeholder Expectations

What Are Stakeholders and Why Are They Important

Stakeholder Value Creation + **Stakeholder Capitalism** → **Capital Allocation**

Stakeholder

Anyone who is affected by or can affect the business.

Stakeholder Capitalism

Creating value for all stakeholders, not just shareholders.

What Are Stakeholders and Why Are They Important

Internal Shareholders

- Owners
- Employees

Company

External Shareholders

- Customers
- Suppliers
- Investors
- Creditors
- Media
- Communities
- Trade Unions
- Gov. Agencies

The quality of these relationships can dictate the company's ability to manage risks & opportunities.

Effective stakeholder management also supports **crisis response & business continuity planning.**

Stakeholder Welfare — **Corporate Profitability**

ESG makes good business sense.

Overarching Stakeholder Expectations

Investors

Large institutional investors have publicly declared ESG criteria will guide their decision-making on investment decisions, especially when there is climate-related risk.

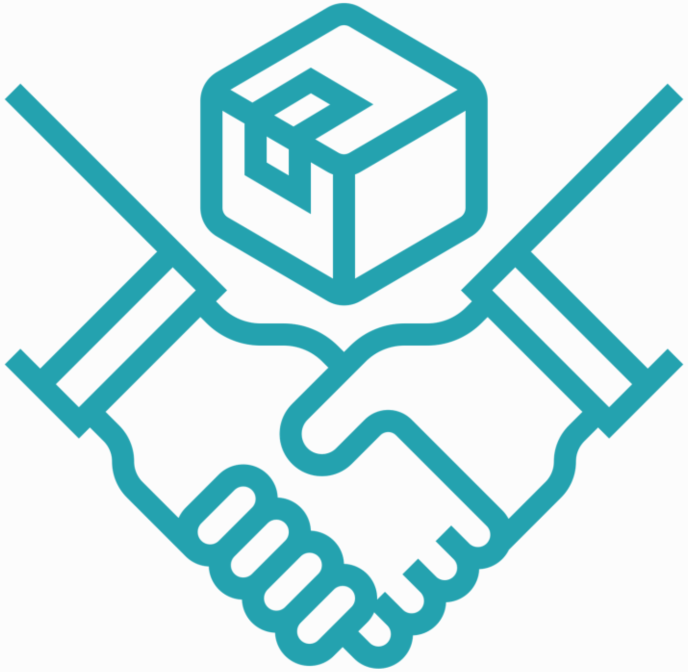
Investors → **Company**

Expect greater clarity & accountability measure for ESG efforts.

- Progress on ESG issues
- Enhanced disclosure & reporting
- ESG Integration

E.g. In 2020, BlackRock publicly announced that ESG issues will be guiding all their decision-making moving forward, prompting the investment community to follow suit.

Overarching Stakeholder Expectations

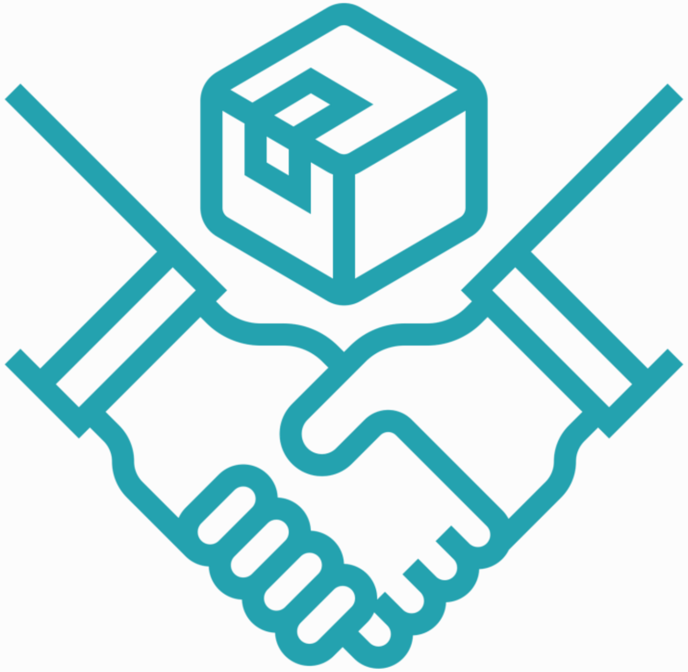


Customers & Supply Chain Partners

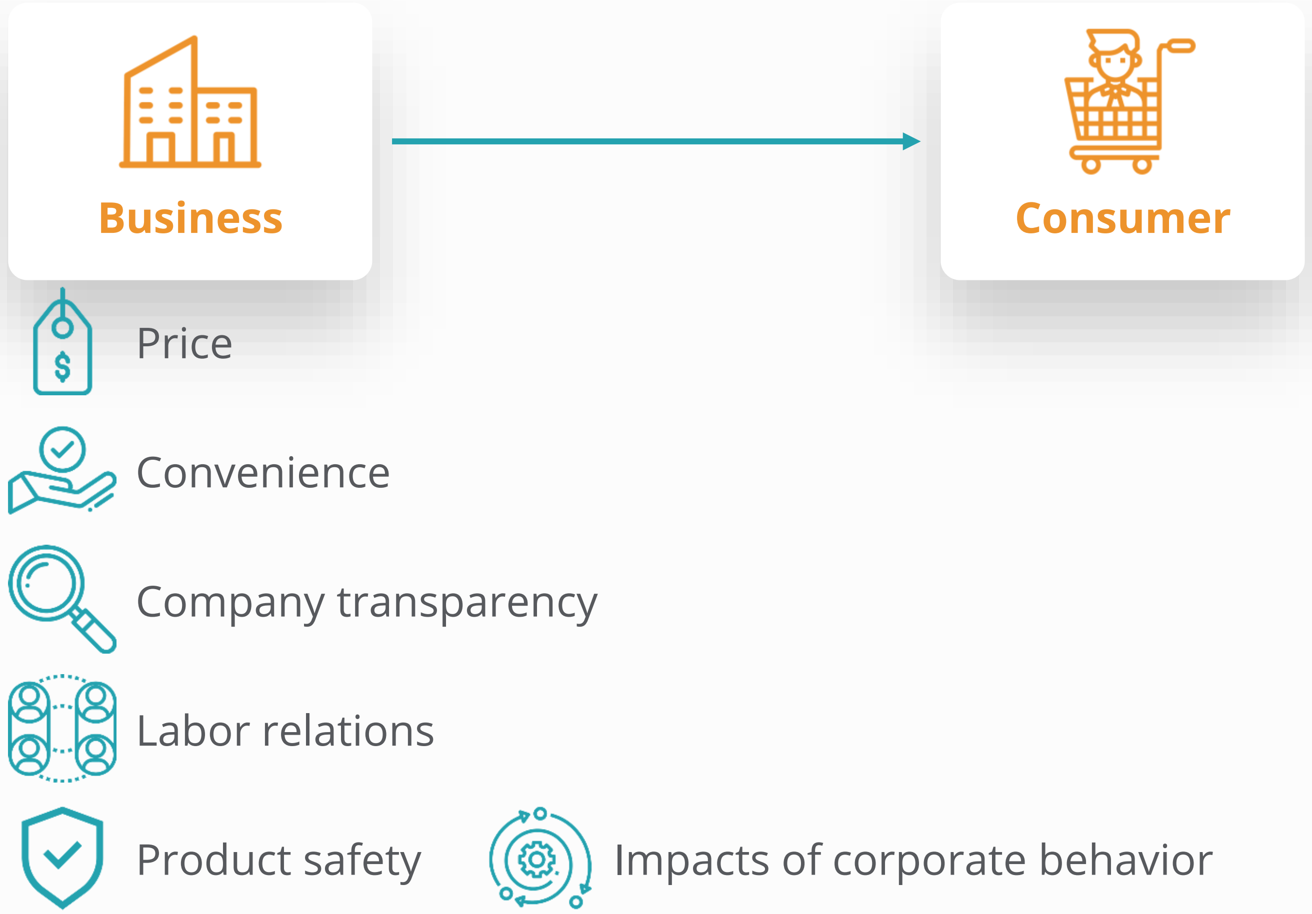
Supply chains are considered a part of the company's footprint and respective impacts.

Supply chain partner ESG maturity is key to both **customer acquisition (for the supplier) & corporate risk management.**

Overarching Stakeholder Expectations



Customers & Supply Chain Partners



Overarching Stakeholder Expectations

Employees

↑ Employee Engagement = ↑ ESG Maturity

in today's labor market where companies serve a higher purpose than generating profit & retaining talent.

Millennials have been responsible for influencing societal norms around key ESG issues in the current market.

Gen Z has been engaged in these types of issues throughout their childhoods and expect employers to share these values.

Overarching Stakeholder Expectations

Communities & Civil Society

Local leaders expect direct engagement on local issues over corporate philanthropy.

A key criticism of philanthropy driven CSR is **throwing money at problems while continuing to create them.**

Modern Demands on Corporate Supply Chains

Supply change management presents some **unique risks:**

Research shows that supply chains account for an estimated **80-90% of a company's negative impacts**.[1]

Scope 3 Emissions

All greenhouse gasses emitted as supplies arrive at the company.

A supplier's ESG maturity is becoming more important in how companies choose procurement partners.

[1]*Starting at the source: Sustainability in supply chains 2019*

Modern Demands on Corporate Supply Chains

Negative events that happen far away are easily surfaced through **social media** and **greater stakeholder awareness.**

Companies are now considered **accountable for negative impacts along supply chains** and 3rd party contractors.

Understanding the company's approach to supply chain management can give a good indication to how they manage risks across the enterprise. Check: supplier code of conduct, comprehensive oversight protocols, and long-term strategy to reduce the risks associated with supply chains.

Key Considerations for Companies & Investors

Reporting, Transparency, and Valuation

Completeness & Transparency of ESG Report

- **Valuation**
- **Shareholder Voting**
- **RFP Decision-making**
- **Other Key Decisions**

All stakeholders rely on public information to analyze a company's ESG strategy, hence a company with limited publicly available info runs the risk of its most important stakeholders making assumptions.

Reporting, Transparency, and Valuation

Analyst

ESG Disclosures & Reports

ESG Info on Webpage

Material issues relevant to the industry

CDP

Annual 10-K

Ratings/Ranking Agencies

MSCI

JUST

Dow Jones Sustainability Indices

Rely on public information

Reporting, Transparency, and Valuation

A company's way of communicating ESG:

- **Management**
- **Strategy**
- **Progress**
- **Outcomes**

Directly impacts how external stakeholders perceive ESG:

- **Maturity**
- **Corporate Culture**
- **Ability to Create Long-term Value**

As an analyst, you can provide significant value through the ability to **identify thematic consistencies in how a company shows up in ratings, indexes, and ESG reports.**

Reporting, Transparency, and Valuation

Every entity, research firm, and rating list uses **a different set of criteria** to evaluate a company's ESG performance.

Analysts need to understand the **details of the company, their approach to ESG and its disclosure**, as well as be familiar with different rating agencies/indices.

Company	MSCI	Sustainalytics	Just Capital	CSRHub
Under Armour	Not Ranked	Low Risk, but ranked 49/186 in textiles & apparel	377/922 overall 10/36 in household good & apparel	58/100
Adidas	AAA	Low Risk, ranked 22/186 in textiles & apparel	Not Ranked	98/100
Nike	A	Low Risk, ranked 45/186 in textiles & apparel	301/922 overall 7/36 in household good & apparel	96/100

ESG and Competitive Advantage

ESG impacts can influence all parties along the value chain due to their interconnectedness and dependency:

Reduced Risk

Mitigates risk to the enterprise.

Increased Opportunities & Growth

Supports identification of new markets, customers, and products/services.

Organizational Resiliency

Anticipates and adapts to technological, customer, and regulatory changes.

Workforce Productivity

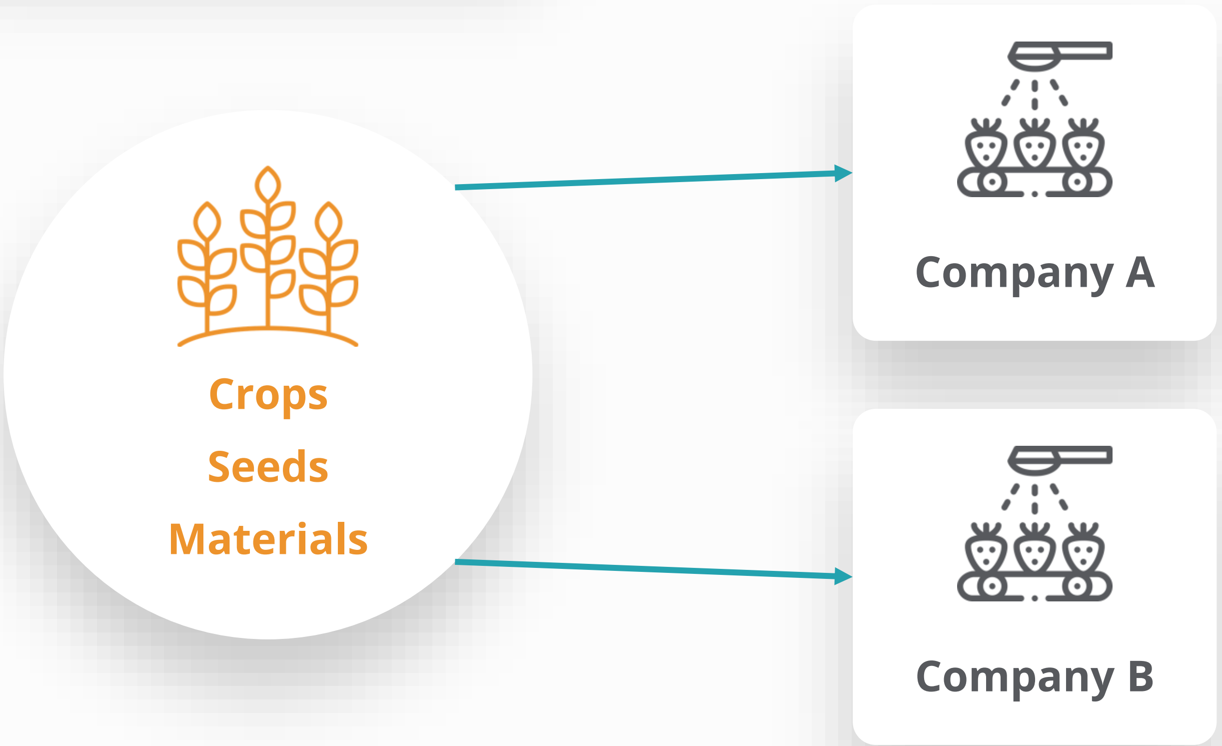
Engages and empowers employees, increases retention and attracts best talent.

Reputation & Stakeholder Trust

Increased stakeholder trust = better corporate reputation.

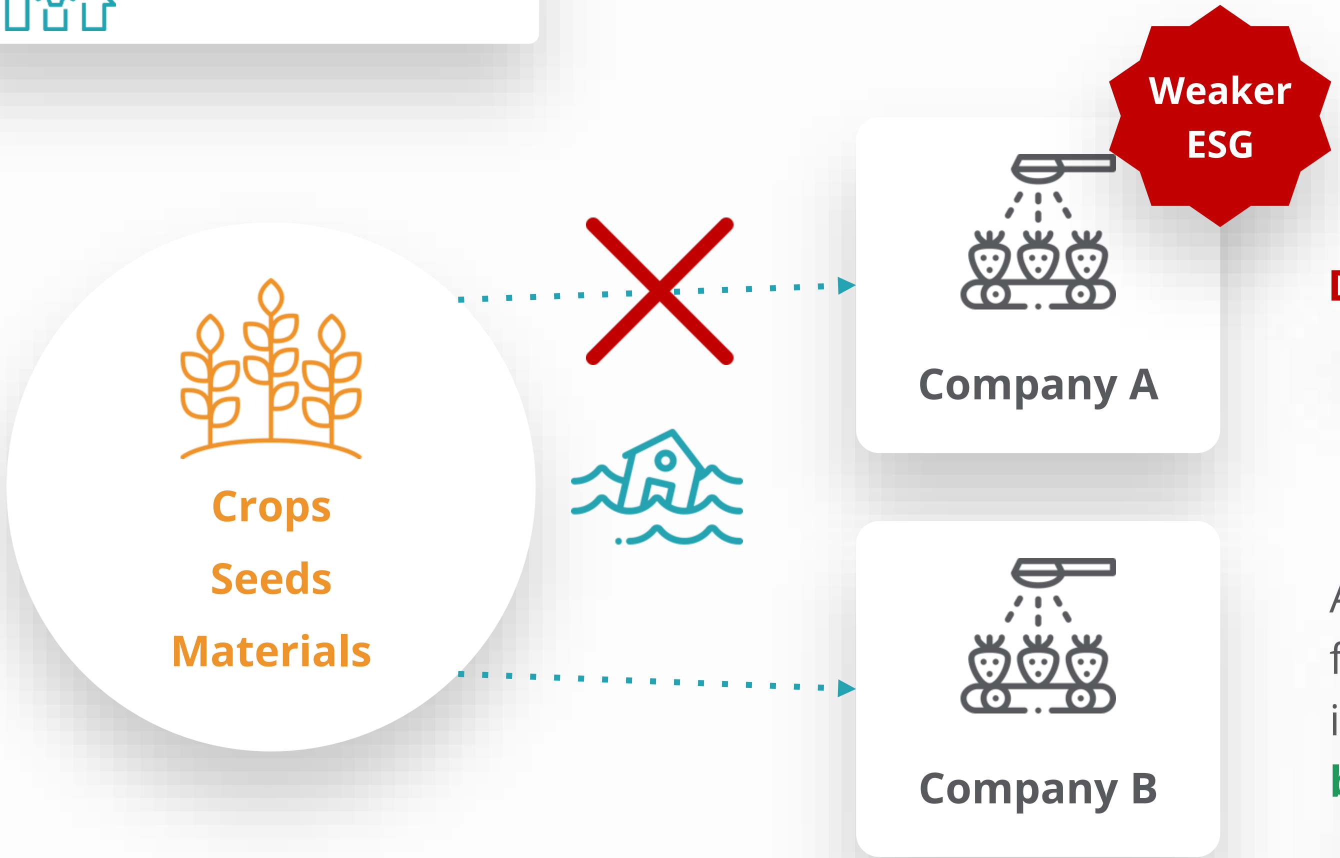
ESG and Competitive Advantage

Reduced Risk



ESG and Competitive Advantage

Reduced Risk



Disruption to basic operations.

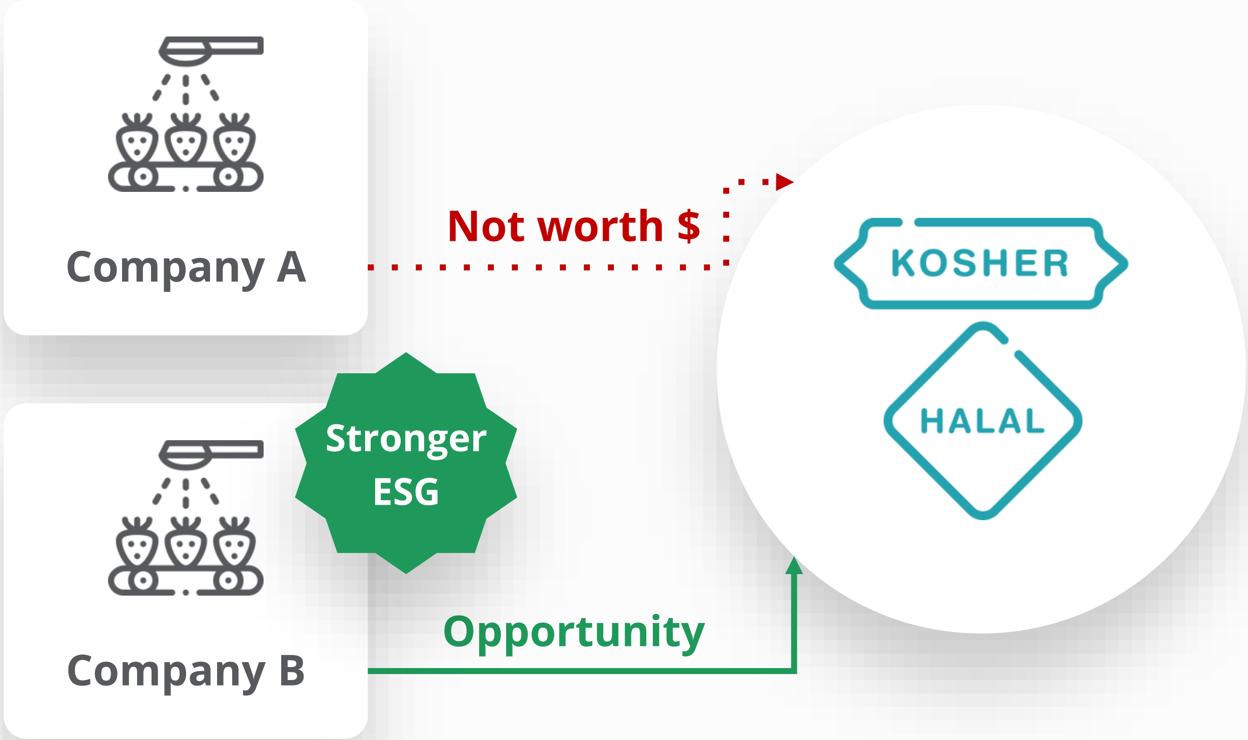
Actively cultivated relationships with local farmers to hedge against environmental impacts and is in turn **able to continue business operations.**

ESG and Competitive Advantage

Opportunities & Growth

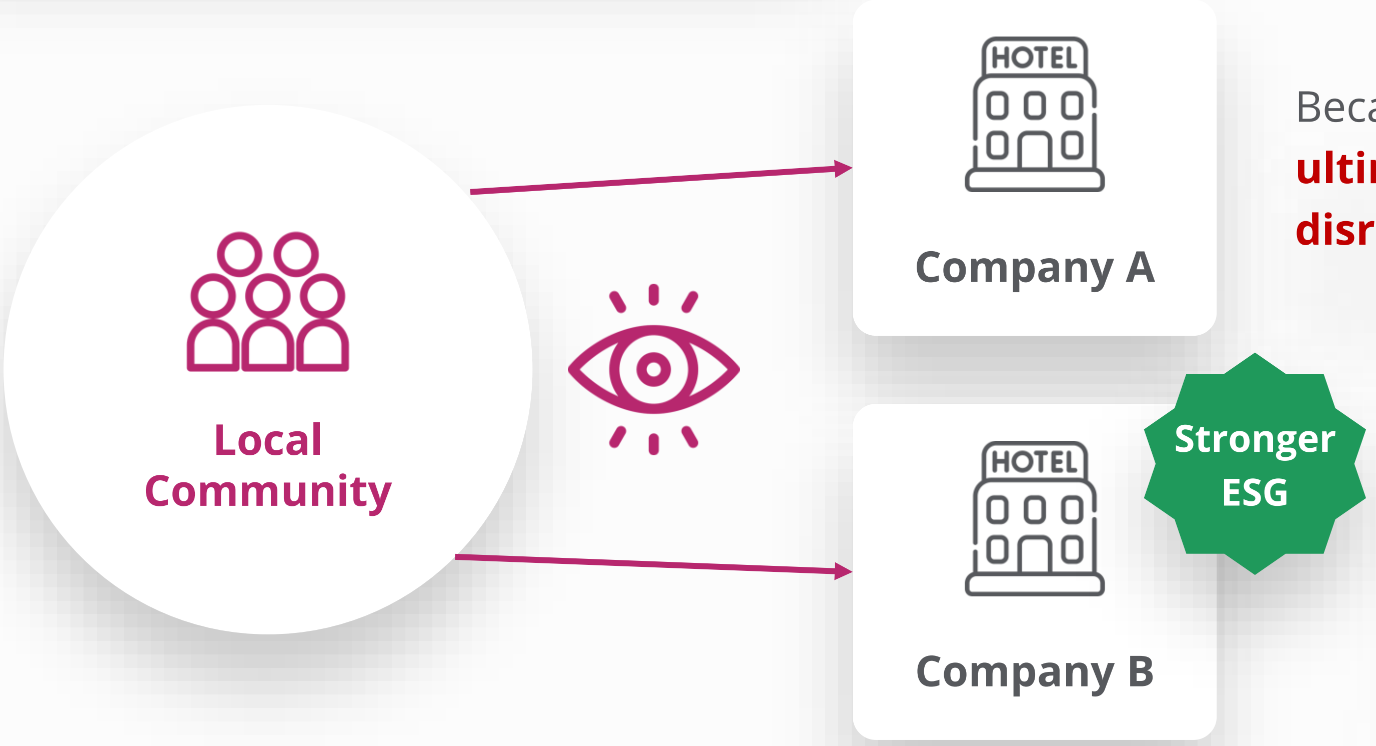
Saved some resources upfront but ultimately **lost potential customers and opportunities in the long-run.**

Identified the local competition over Jewish & Muslim populations and **captured these customer bases & institutions** that serve this group.



ESG and Competitive Advantage

Organizational Resiliency



Became the next target of community protests and **ultimately suffered losses from these disruptions to daily operations.**

Began procuring biodegradable alternatives from domestic suppliers and opening up a dialogue with the community. Although more expensive at the start, the company **anticipated the necessary change and adapted.**

ESG and Competitive Advantage

Workforce Productivity

Competitive

Company A

Higher attrition rates (healthcare costs) **due to burnout from a competitive approach.**

Collaborative

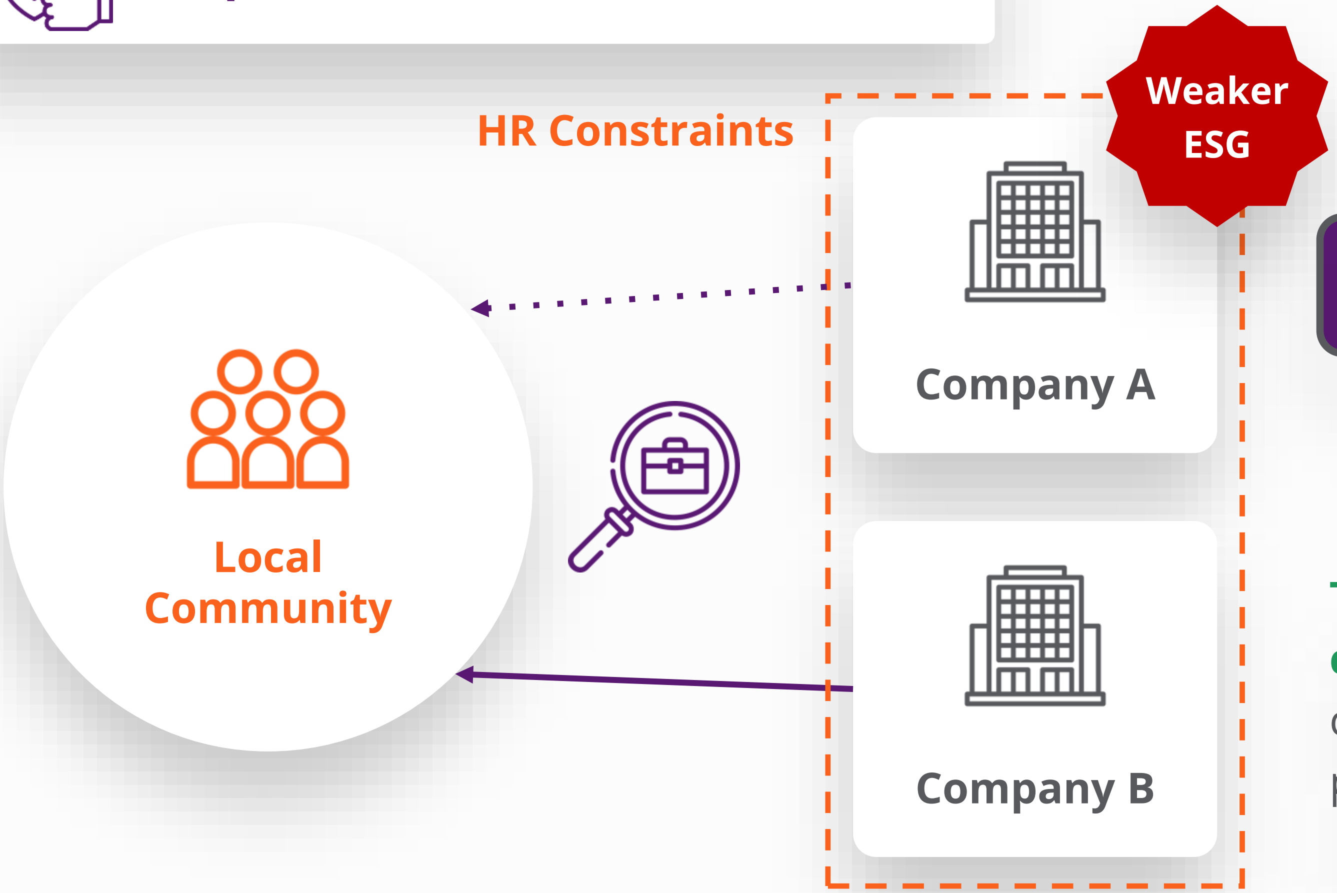
Company B

Stronger ESG

Lower attrition rates, a healthier workforce, and **lower associated costs.**

ESG and Competitive Advantage

Reputation & Stakeholder Trust



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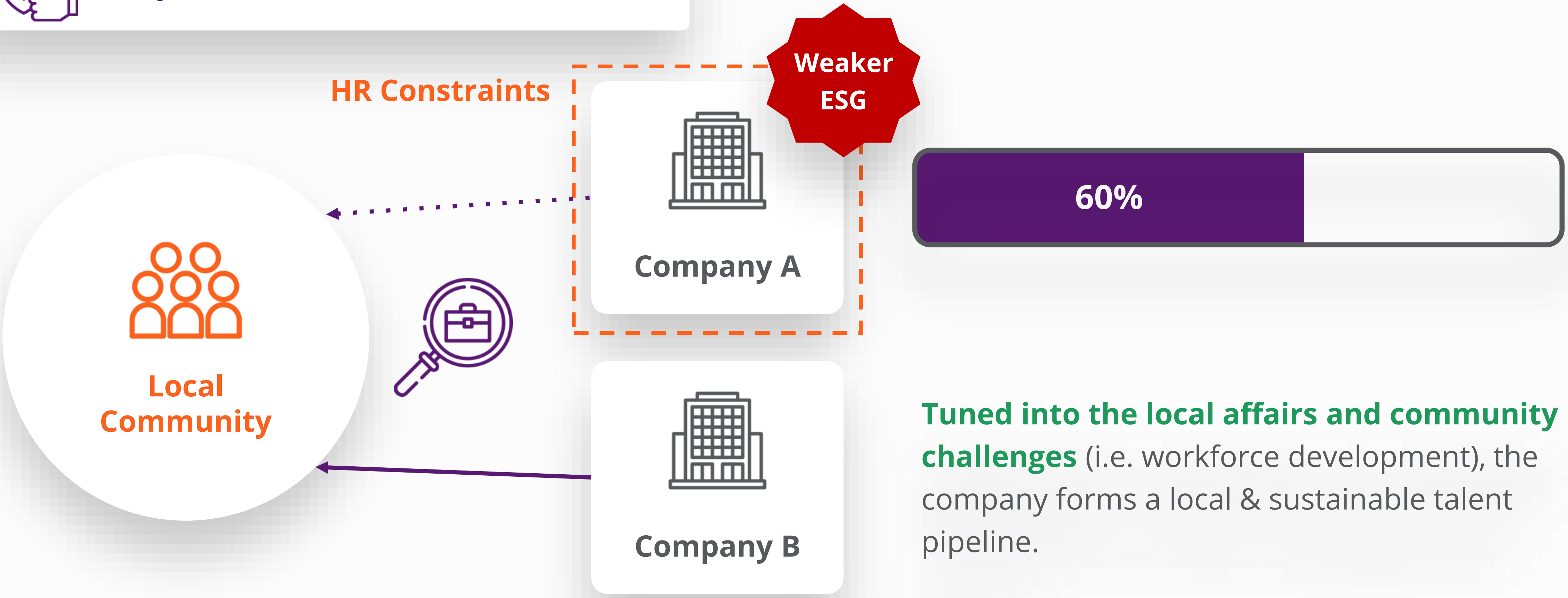

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	Examples of Strong ESG	Examples of Weak ESG
Reduced Risk	• Reduced supply chain disruptions • Reduced probability of stranded assets due to climate change • Increased natural resource stewardship and reduced costs	• Losses due to supply disruption • Incur fines, penalties, and sunk assets • Increasing costs for key natural resources
Opportunities & Growth	• Identify new markets, customer bases, and unmet need for new products/services • Enhanced likelihood of strategic partnerships	• Missed opportunities for markets, customers, and product innovation • Inability to leverage assets, capabilities, and networks of vital partners
Organizational Resiliency	• Enhanced crisis management and business continuity capabilities • Proactive in anticipating the need for and executing on internal change	• Enhanced crisis management and business continuity capabilities • Proactive in anticipating the need for and executing on internal change
Workforce Productivity	• Enhanced employee output due to greater levels of engagement • Attract best talent	• Monetary losses due to employee turnover and lowered productivity • Lose out on essential talent
Reputation & Stakeholder Trust	• Attract and retain B2B and B2C customers • Obtain support/resources through greater governmental and community relations	• Customer losses • Loss of social “license to operate” and stakeholder opposition

ESG Investing Trends & Fund Performance

ESG can impact many internal & external aspects of a business. Some emerging trends consistent across all industries include:

Climate Change Strategy

Greater action, disclosure, and investment in managing the risks of climate change.

Increased Attention to the S&G

Social & Governance issues (i.e. DEI) are becoming increasingly important.

Transparency & Disclosure

The "how, what, when, where, and why" of ESG efforts and greater transparency around operations.

Long-term Ownership Mindset

Investors are moving from quarterly stock prices to long-term value creation.

ESG Investing Trends & Fund Performance

ESG funds outperformed the markets and conventional indices during the COVID-19 pandemic.

ESG-centric companies have greater sensitivity in navigating & adapting to macro-level market & non-market changes.

Initiatives & Their Impacts

Both investors & corporations are creating **coalitions and cross-sector partnerships** to continue advancing ESG's implementation and standardization. Some examples of these initiatives:

Investor Initiatives

PRI | Principles for Responsible Investment

Principles for how investment community can drive progress on world challenges.

Climate Action 100+ Global Investors Driving Business Transition

Ensures the world's largest corporate greenhouse gas emitters take necessary action on climate change.

WE MEAN BUSINESS COALITION

Drives business action and policy ambition to accelerate the zero-carbon transition.

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Corporate Initiatives

RE 100

Bringing together world's most influential business committed to 100% renewable energy.

United Nations Global Compact 20 years — Uniting business for a better world

Voluntary initiative to implement universal sustainability principles and undertake partnerships to support this goal.

SUSTAINABLE PURCHASING LEADERSHIP COUNCIL

Convenes buyers, sellers, suppliers, and advocates to develop programs that standardize sustainable purchasing.

Initiatives & Their Impacts

The impacts of these initiatives have led to investors asking for more content and disclosure on, and corporations to further develop, the following:

Corporate Purpose

Purpose beyond profits is important to develop as it provides insight into decision-making and long-term resilience.

Scenario Planning

Companies are expected to plan for a climate catastrophe with Detailed disclosure on navigating physical, transition, and market/labor risks.

Translating Risks to Opportunities

Challenges (i.e. natural resource scarcity) present opportunities to launch new ventures and address the challenge through profitable market-based solutions.

Course Summary

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Environmental Conditions

Social Conditions

Economic Conditions

are becoming increasingly important.

Material issues are not created equal and **majority are industry-specific.**

Materiality Analysis

Critical to ESG performance as companies are evaluated based on material information.

External pressures are raising the bar on ESG performance expectations and **stakeholder engagement is the key to ensuring alignment across all parties.**

Course Summary

Creating an ESG framework can provide a competitive advantage as ESG performance improvements directly influence operational/commercial/reputational/etc. risks & opportunities.