

Introduction to ESG

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What is ESG?



- ESG assesses the impacts businesses have on society.
- ESG also covers factors that reflect risks and opportunities for companies.
- Reporting on ESG is quickly becoming a standard practice for companies.

Key Terms and Definitions

Terms	Definition
ESG	Environmental, Social, and Governance
Environmental Factors	Environmental factors relate to how a company affects the earth. It includes climate change impact, waste production & management, water and other resource use, and related risks and opportunities.
Social Factors	Social factors relate to how a company treats employees and the community. It includes employee engagement, human rights, health/wellbeing initiatives, and employee and consumer protection.
Governance Factors	Governance factors relate to how a company is run. It includes management structure, compensation, internal controls and accountability, shareholder rights, and oversight of ESG.
Greenwashing	Promoting a product, service, or company as more environmentally-friendly than it truly is by advertising environmental benefits that are overstated or misleading.
Impact Investing	Impact investing refers to investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return.
Materiality	Materiality is a measure of the importance of specific topics and information to overall business performance. The more significant a topic is, the more material it is, and vice versa.

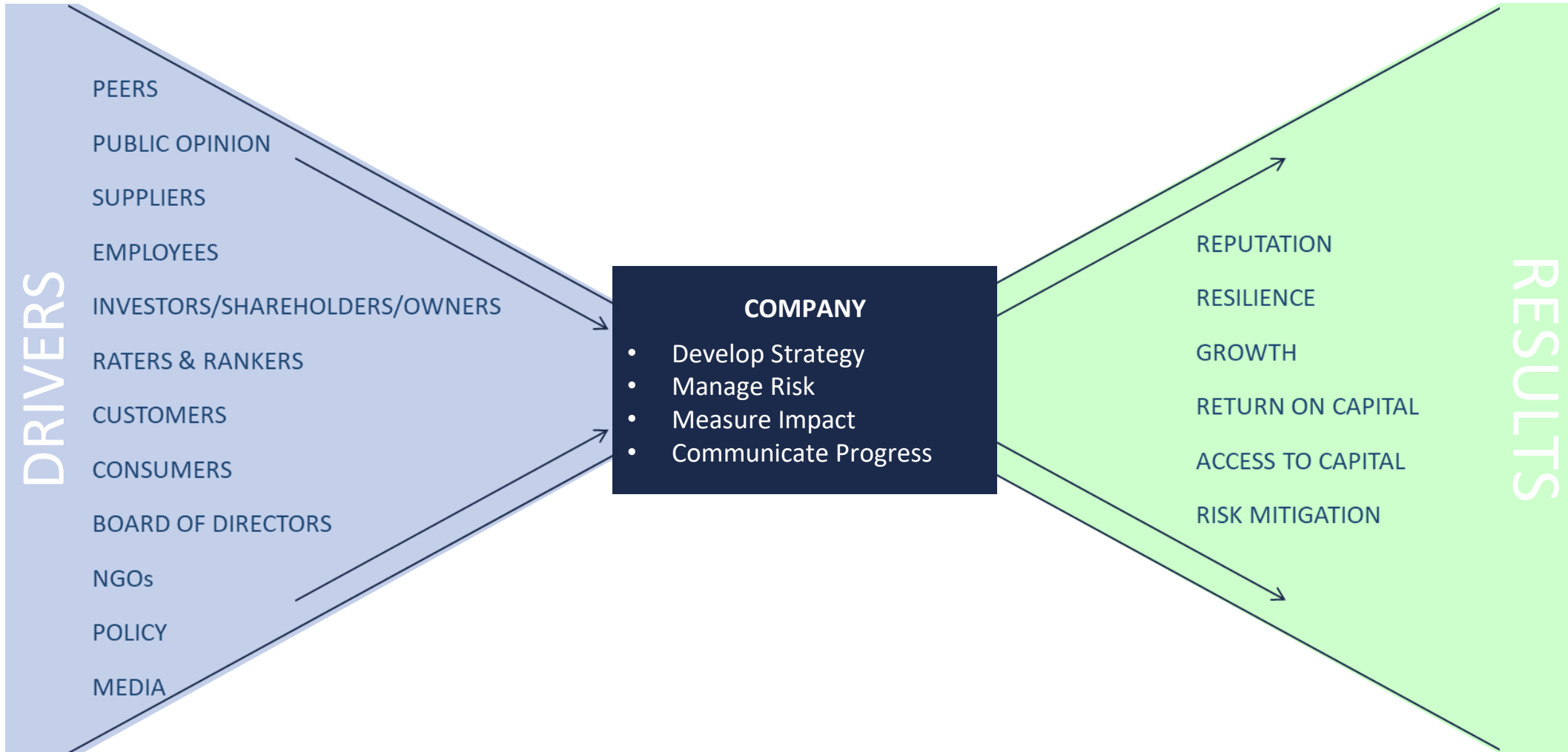
Examples of ESG Issues

Across all industries, investors and other stakeholders are seeking reliable, metrics and standardized information on a wide range of ESG issues, such as those listed here.

Environmental Issues	Social Issues	Governance Issues
<ul style="list-style-type: none"> ■ Climate change and carbon emissions ■ Air and water pollution ■ Biodiversity ■ Deforestation ■ Energy efficiency ■ Waste management ■ Water scarcity 	<ul style="list-style-type: none"> ■ Customer satisfaction ■ Data protection and privacy ■ Gender and diversity ■ Employee engagement ■ Community relations ■ Human rights ■ Labor standards 	<ul style="list-style-type: none"> ■ Board composition ■ Audit committee structure ■ Bribery and corruption ■ Executive compensation ■ Lobbying ■ Political contributions ■ Whistleblower schemes

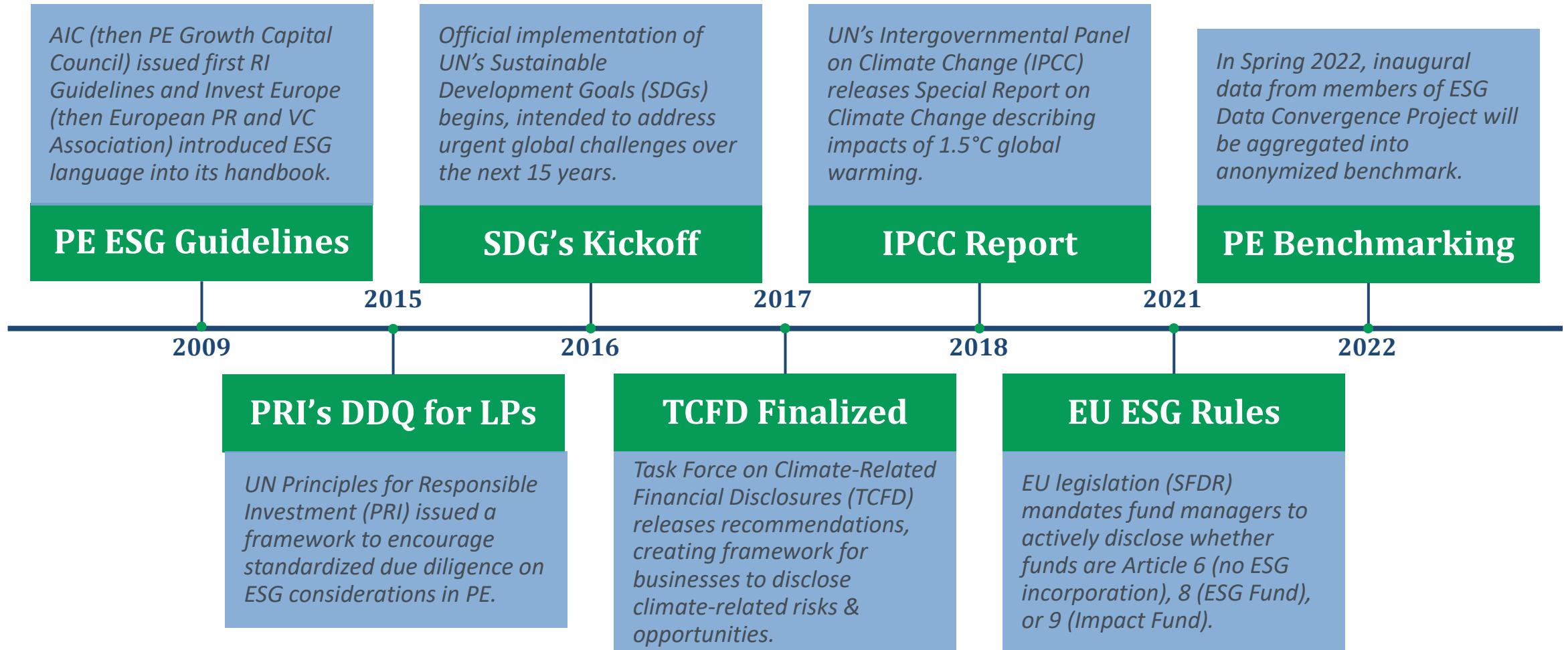
Source: CFA Institute: <https://blogs.cfainstitute.org/marketintegrity/2015/11/19/esg-education-bridging-the-gap-for-better-informed-investment-decisions/>

ESG has become a Strategic Imperative



RECENT MILESTONES

2010s: ESG Enters Mainstream for Private Markets





ESG Frameworks & Standards

WHAT ARE ESG FRAMEWORKS & STANDARDS?



In most countries reporting ESG information is currently voluntary, but is often expected by clients and many investors, who are evaluating companies based on both qualitative and quantitative ESG information as part of their financial analysis.

There are a voluntary frameworks and standards developed to address this need. The ones on the left are among the most used.

Frameworks – Guidance to structure and prepare information and what broad topics are covered. *Ex: TCFD*

Standards – Specific, detailed, & replicable reporting requirements for topics, including metrics. *Ex: SASB, GRI*

HOW TO USE ESG FRAMEWORKS & STANDARDS



Resource	Recommended Use
<p>SASB Sustainability Accounting Standards Board</p>	<p>Use as the base for ESG reporting because:</p> <ul style="list-style-type: none"> • Market consensus on most financially material factors • Center of ESG gravity for investment management • Relatively adaptable and simple to use
<p>TCFD Task Force on Climate-related Financial Disclosures</p>	<p>Use to guide climate reporting and strategy because:</p> <ul style="list-style-type: none"> • Issue is central for regulators and financial sector • Essential for keeping up with recent advancements • Full reporting is heavy lift at first, but can grow over time
<p>GRI Global Reporting Initiative</p>	<p>Use to supplement reporting as needed because:</p> <ul style="list-style-type: none"> • Longtime market leader on comprehensive ESG reporting • Best choice for reporting on societally material ESG issues • Can adapt for use without committing to full accordance

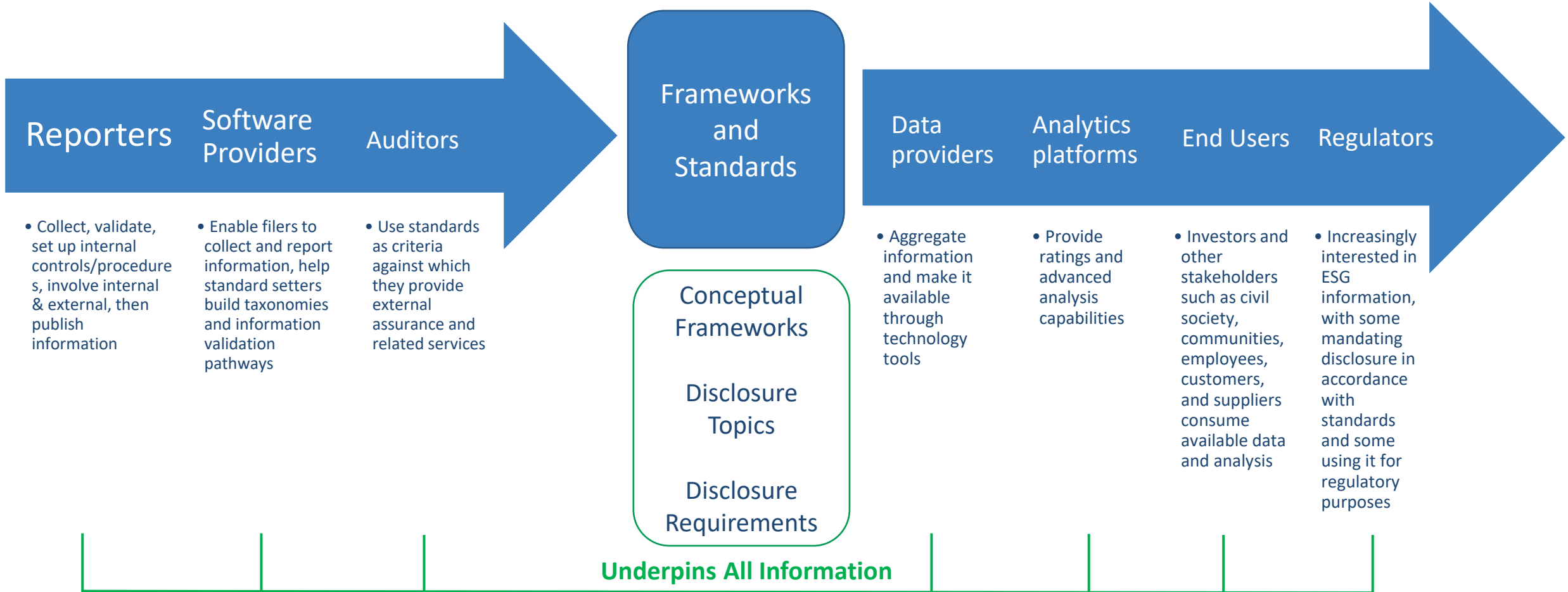
Companies often use a combination of these standards to ensure that customers, investors, and other stakeholders get useful information.

This chart illustrates how the standards can complement each other.

Who Uses ESG Frameworks & Standards?



Common definitions help produce standardized information for a many end users.



ESG FRAMEWORKS ARE EVOLVING

2022 is a year of consolidation, with many different frameworks formally aligning into a global standard.



Spotlight: SASB’s Industry-Specific Approach



Environment	Social Capital	Human Capital	Business Model & Innovation	Leadership & Governance
GHG Emissions	Human Rights & Community Relations	Labor Practices	Product Design & Lifecycle Management ②	Business Ethics
Air Quality	Customer Privacy	Employee Health & Safety	Business Model Resilience	Competitive Behavior
Energy Management ②	Data Security	Employee Engagement, Diversity & Inclusion	Supply Chain Management	Management of the Legal & Regulatory Environment
Water & Wastewater Management ②	Access & Affordability		Materials Sourcing & Efficiency	Critical Incident Risk Management
Waste & Hazardous Materials Management	Product Quality & Safety		Physical Impacts of Climate Change ②	Systemic Risk Management
Ecological Impacts	Customer Welfare			
	Selling Practices & Product Labeling			

The SASB framework highlights the ESG issues that are highest priority for each industry, allowing companies to focus efforts and allocate ESG resources more wisely.



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Energy Management ②	Data Security ②	Employee Engagement, Diversity & Inclusion ②	Supply Chain Management	Management of the Legal & Regulatory Environment
Water & Wastewater Management	Access & Affordability		Materials Sourcing & Efficiency	Critical Incident Risk Management
Waste & Hazardous Materials Management	Product Quality & Safety		Physical Impacts of Climate Change	Systemic Risk Management
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