A strong Environment Social Governance (ESG) strategy makes overwhelming financial sense

What is ESG?

A framework that helps Stakeholders evaluate how a company manages risk and opportunity around sustainability issues

What is ESG?

First coined in 2005, ESG covers a wide range of issues that may have a direct or indirect impact on financial relevance. Some of these issues that come under the purview of ESG reporting include resource management, supply chain management, organizational health, safety policies, and building trust through transparency.

What is ESG Framework?

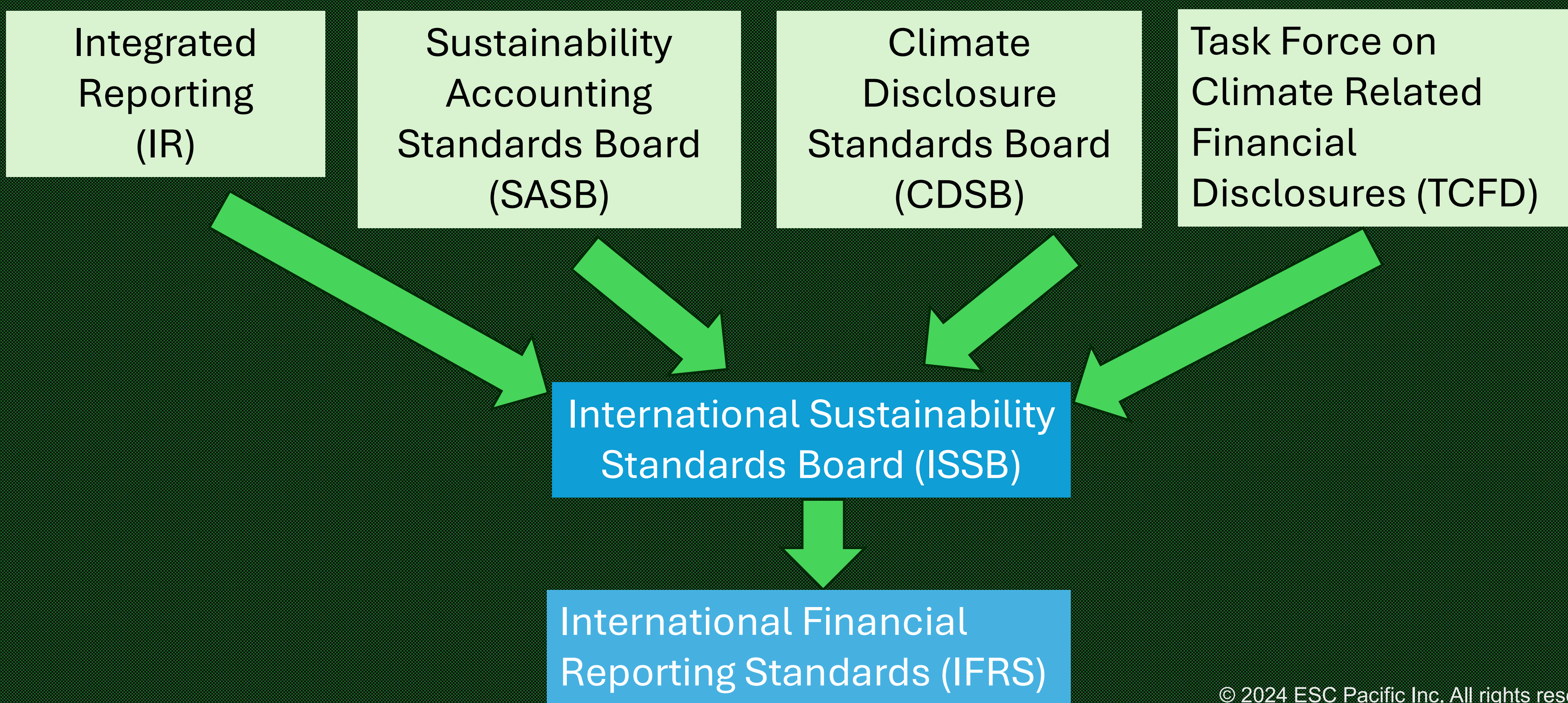
Acronym	Description
A4S	Accounting for Sustainability
ACCR	Australian Centre for Corporate Responsibility
ACSI	Australian Council of Superannuation Investors
AFCA	Australian Financial Complaints Authority
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
CDP	Carbon Disclosure Project
CDSB	Climate Disclosure Standards Board
CFD	Climate-related Financial Disclosure
CSDDD	Corporate Sustainability Due Diligence Directive
CSR	Corporate Social Responsibility
CSRC	China Securities Regulatory Commission
CSRD	Corporate Sustainability Reporting Directive

Acronym	Description
DJSI	Dow Jones Sustainability Index
ECB	European Central Bank
EEA	European Environment Agency
EFRAG	The European Financial Reporting Advisory Group
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
EPA	U.S. Environmental Protection Agency
ESG	Environmental, Social, and Governance
ESGI	Environmental, Social, and Governance Integration
ESGR	Environmental, Social, and Governance Report
ESMA	European Securities and Markets Authority
ESRS	European Sustainability Reporting Standards
EU ETS	EU Emissions Trading System
EU GBS	EU Green Bond Standard

Acronym	Description
EU SBTi	EU Science-Based Targets initiative
EU SFDR	EU Sustainable Finance Disclosure Regulation
EU Taxonomy	EU Sustainable Finance Taxonomy
FSB	Financial Stability Board
FSC	Financial Services Commission (South Korea)
GRI	Global Reporting Initiative
HKEX	Hong Kong Exchanges and Clearing
IASB	International Accounting Standards Board
ICMA	International Capital Market Association
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IR Framework	Integrated Reporting Framework
ISO	International Organization for Standardization
ISS	Institutional Shareholder Services

Acronym	Description
ISSB	International Sustainability Standards Board
JFSA	Japan Financial Services Agency
MAS	Monetary Authority of Singapore
MSCI	Morgan Stanley Capital International
NZX	New Zealand Exchange
NZX ESG	New Zealand Exchange Environmental, Social, and Governance
OECD	Organisation for Economic Cooperation and Development
PCAF	Partnership for Carbon Accounting Financials
PRI	Principles for Responsible Investment
RIAA	Responsible Investment Association Australasia
S&P/ASX	Standard & Poor's Australian Securities Exchange
SASB	Sustainability Accounting Standards Board Standards
SBTi	Science Based Target initiative
SDGs	Sustainable Development Goals

What ESG Framework?



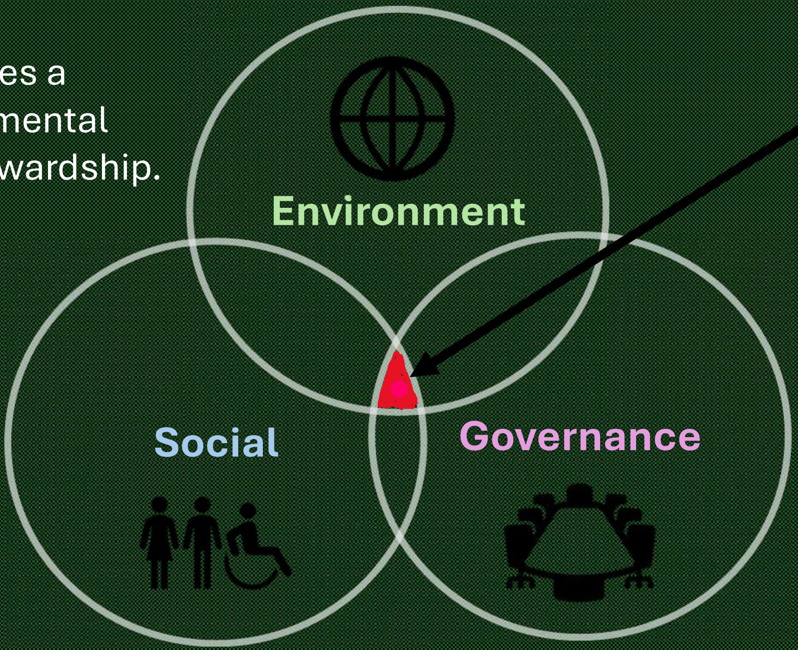
International Financial Reporting Standards (IFRS)

- IFRS S1 and S2 were developed to support alignment with the United Nations Sustainability Goals and other international, national, and industry bodies
- The aim is to create a global baseline of sustainability-related disclosures so organizations can demonstrate a consistent understanding of how sustainability factors affect performance and prospects
- The standards ensure that companies provide sustainability-related information alongside financial statements – in the same reporting package
- IFRS Accounting Standards are required by more than 140 jurisdictions
- However, the sustainability disclosure standards must be adopted by the regulatory jurisdictions

What is ESG?

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

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



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

What is ESG?

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

History and Evolution is ESG

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

ESG's Growth into the Mainstream

Three key factors in ESG's growth:

Materiality

Influence on investor risk and returns

Transparency

How money is invested

Regulation

National & international

ESG's Growth into the Mainstream

Three key factors in ESG's growth:

Materiality

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Transparency

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Regulation

ESG Links to Higher Value Creation

The first step in realizing ESG's value begins with recognizing the opportunity

ESG Links to Higher Value Creation

E environmental criteria

Includes the energy your company takes in and the waste it discharges, the resources it needs, and the consequences for living beings as a result.

Not least, E encompasses carbon emissions and climate change. Every company uses energy and resources; every company affects, and is affected by, the environment.

ESG Links to Higher Value Creation

S social criteria

Addresses the relationships your company has and the reputation it fosters with people and institutions in the communities where you do business.

S includes labor relations and diversity and inclusion. Every company operates within a broader, diverse society.

ESG Links to Higher Value Creation

G governance criteria

The internal system of practices, controls, and procedures your company adopts in order to govern itself, make effective decisions, comply with the law, and meet the needs of external stakeholders.

Every company, which is itself a legal creation, requires governance.

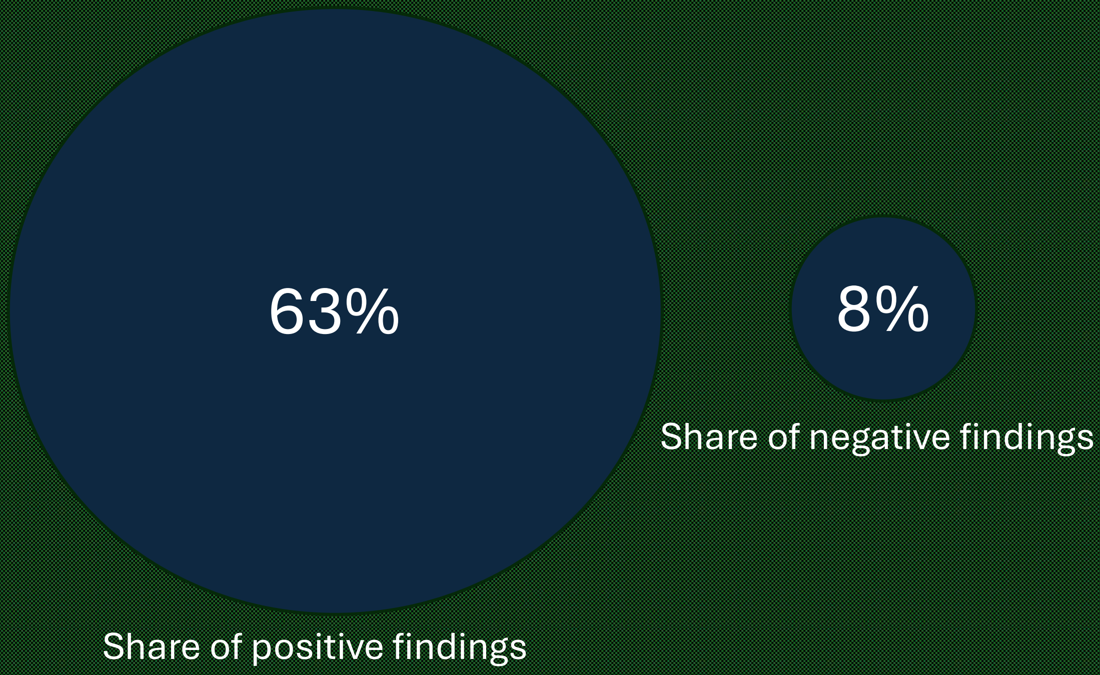
ESG Links to Higher Value Creation

ESG-oriented investing has experienced a meteoric rise from $3 trillion in 2004 to a projected $53 trillion by 2025

Research overwhelmingly finds that companies that pay attention to ESG concerns do not experience a drag on value creation – in fact, quite the opposite

ESG Links to Higher Value Creation

Results of >2,000 studies on the impaction of ESG on equity returns:



A Strong ESG Strategy Creates Value

ESG links to **cash** flow in five important ways:

(1) facilitating top-line growth

(2) reducing costs

(3) minimizing regulatory and legal interventions

(4) increasing employee productivity

(5) optimizing investment and capital expenditures

A Strong ESG Strategy Creates Value

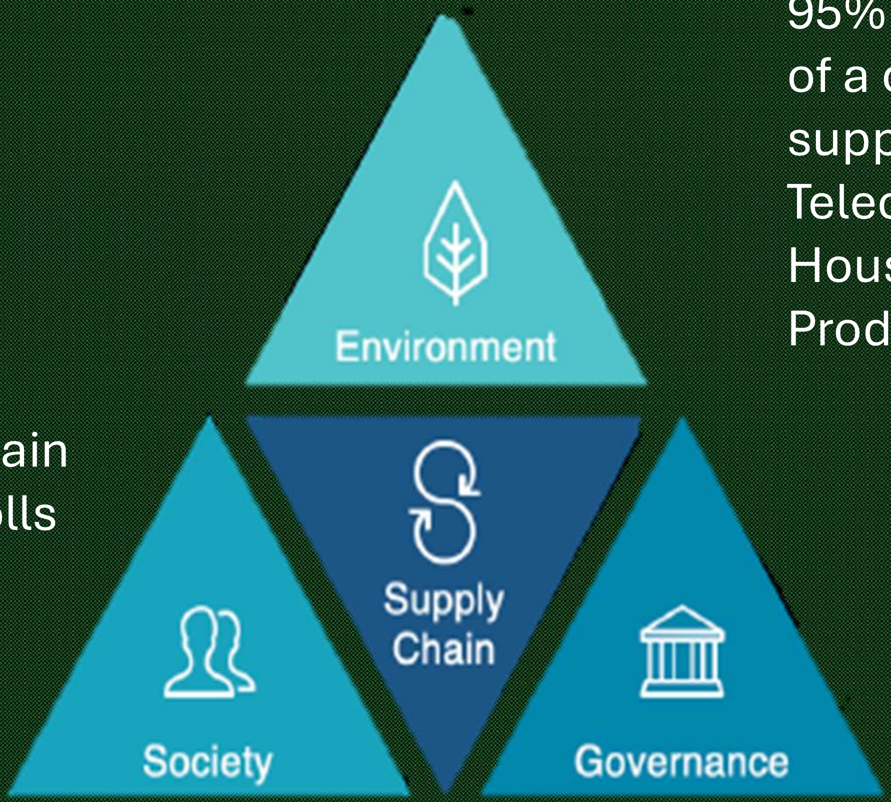
	Strong ESG proposition	Weak ESG proposition
Top-line growth	Attract B2B and B2C customers with more sustainable products Achieve better access to resources through stronger community and government relations	Lose customers through poor sustainability practices or a perception of unsustainable or unsafe products Lose access to resources as a result of poor community and labor relations
Cost reductions	Lower energy consumption Reduce water intake	Generate unnecessary waste and pay correspondingly higher waste-disposal costs Expend more in packaging costs

A Strong ESG Strategy Creates Value

	Strong ESG proposition	Weak ESG proposition
Regulatory and legal interventions	Achieve greater strategic freedom through deregulation Earn subsidies and government support	Suffer restriction on advertising and point of sale Incur fines, penalties, and enforcement actions
Productivity uplift	Boost employee motivation Attract talent through greater social credibility	Deal with “social stigma” which restricts talent pool Lose talent as a result of weak purpose
Investment and asset optimization	Enhance investment returns by better allocating capital for the long term with more sustainable plant and equipment	Suffer stranded assets as a result of premature write-downs Fall behind competitors that have invested to be less “energy hungry”

The Supply (Value) Chain is at the Heart of ESG

37% of people worldwide are employed in jobs related to supply chain activity, including rolls in logistics, procurement, transportation, warehousing, and more



95% of environmental impact of a company is through its supply chain for Retail, Telecom, Auto, Foods, Household & Personal Care Products, Media

In 2019 $500 billion of market value was wiped out in the top US companies due to Supply Chain related ESG governance issues

Five Ways ESG Creates Long-Term Business Value

1. Attract talent and improve employee loyalty. People want to work for organizations whose values align with their own

2. Increase customer loyalty and safeguard brand integrity

3. Deliver greater shareholder returns

4. Drive higher profitability

5. Mitigate risk and build resilience

Greenwashing

The process of conveying a false impression or providing misleading information about how a company's products are more environmentally sound

Greenwashing Risks

Reputational Risk

Regulatory Risk

Litigation Risk

Market Risk

Operational Risk

Impact on Climate Goals

Embedding a ESG Strategy

ESG provides a view of a company and its long-term value potential and relevance to its stakeholders.

Organizations create ESG strategies to help them act on and measure what is mutually good for profits, people, and the planet.

Questions?

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