

The Black Box Institute

Corporate Sustainability
Part 2: Preparing for ESG Investment
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Definition

“ Environmental, Social, and Governance (ESG) Investing refers to the integration of environmental, social, and governance factors into investment decision-making, with the aim of creating a more sustainable and responsible investment portfolio. ”



Importance

By 2025, **36%** of Global Assets Under Management are expected to be represented by Socially Responsible Investors.

For companies to gain access to ESG investments, they must adopt responsible business practices and prioritize sustainability, social responsibility, and ethical governance.



ESG investing aims to balance financial returns with positive societal and environmental impact.



ESG Reporting will soon be Mandatory

- The EU already has some mandatory reporting requirements which are only going to increase
- In the US, the SEC has disclosure and ESG regulations but is yet to have a formal green taxonomy, like the EU, these regulations are expected to be implemented soon



Attracts Investments

- 80% of investors said ESG was an important factor for investment decisions
- Investment into ESG related funds increases by 55% to over \$500B in 2021, a trend that is likely to continue
- This improved access to finance/capital provides increased opportunities



It is the Right Thing To Do

All companies should:

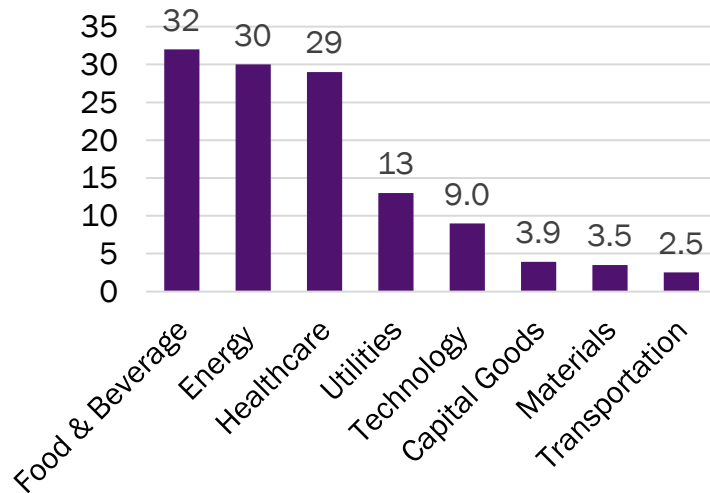
- Take action to combat the climate crisis
- Take responsibility for the environment and communities in which they operate
- Promote fairness on all levels with employees and how they conduct business

Developing an ESG strategy is vital for companies' long-term financial stability, stakeholder satisfaction, and ethical responsibility. It considers potential risks and opportunities while simultaneously promoting responsible and sustainable business practices which is becoming more important to customers, employees, and investors. A strong ESG reputation can enhance a company's brand and reputation.

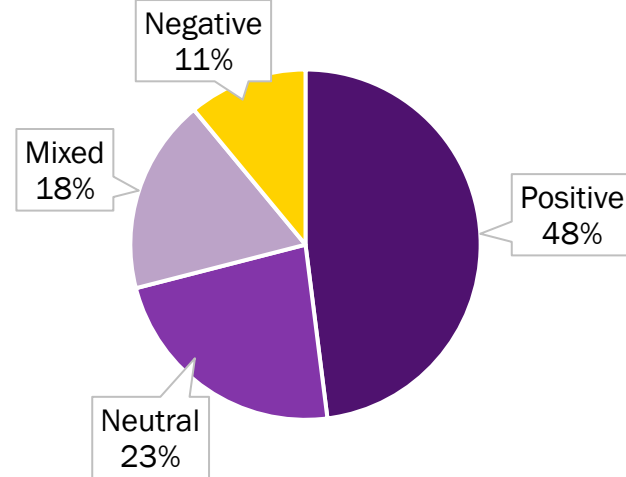
ESG Companies Offer Better Returns

An ESG performance study analyzed the returns of 157 'best in class' companies and found that ESG filtering improved returns and reduced volatility overall. However, there was considerable variation between industries.

Outperformance of ESG stocks over industry peers (%)



Relationship between ESG and corporate performance



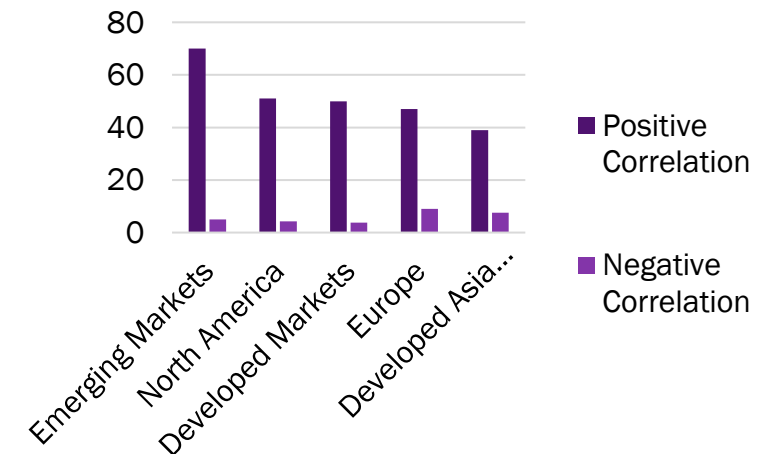
ESG Boosts Corporate Performance

A study evaluating the relationship between ESG performance across asset classes and regions found that nearly half showed a positive correlation between ESG and corporate financial performance, with only 11% of corporations showing a negative relationship.

Strong ESG Standards Support Emerging Market Performance

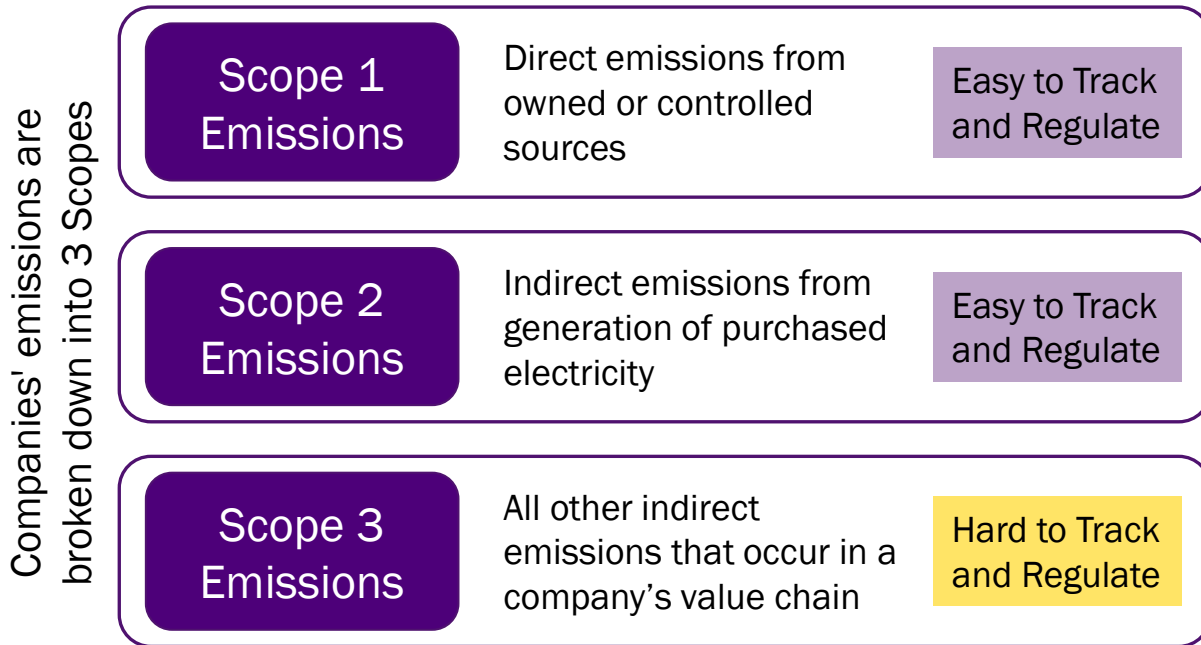
Due to lower ESG standards across the board in emerging markets, there are opportunities for larger potential gains, this is shown by a great number of studies that find a positive relationship between ESG and corporate financial performance in these markets.

Strong ESG-performance correlation in Emerging Markets



Guide to ESG Frameworks + Emission Measurement Challenges

There are many reasons as to why it is so difficult to create a widespread ESG framework that all can use, for reasons of subjectivity challenges, evolving standards and practices, jurisdictional variances, and industry specific considerations. The following **example** illustrates the **Emission Measurement Challenges**:



Scope 3 accounts for the greatest portion of a company's emissions

The difficulties developing a taxonomy to cover scopes 1, 2 and particularly 3 in a way that is easily applicable for all companies is just one example of why there is yet to be a standardized mandatory disclosure framework*.

In the absence of this, many other rating agencies have developed their own frameworks for companies to adhere to on a voluntary basis.



Many Rating Agencies are currently collaborating to produce a more universal ESG Framework which is **expected to be ready in 2023**.

*This varies between regions; the EU has some mandatory disclosures, but these are not comprehensive. In North America, there are no mandatory disclosures required although the SEC and CSA promote voluntary disclosures to an existing ESG Framework.

Creating An ESG Compliance Strategy



Step 1

Get Support From Leadership

Ensure ESG commitment through leadership and involvement from senior leaders, internal stakeholders, and the board. The board should establish governance and accountability processes for implementing ESG strategies.



Step 2

Create an ESG Committee

Establish a cross functional ESG steering committee to develop strategies, implement initiatives and monitor ESG progress. There should be a wide variety of members that will set up and communicate the ESG initiatives and progress to all stakeholders.



Creating an ESG Compliance Strategy cannot be an isolated endeavour, it will require company-wide support and commitment and to ensure this, support and proactiveness from Senior Leaders is crucial.

Step 3

Select a Framework

ESG Frameworks are voluntary disclosure programs that encourage greater corporate sustainability in the absence of any standardized government-imposed programs.

There are several different ESG Frameworks, some of the most popular ones include:



CDP – Carbon Disclosure Project



SASB – Sustainability Accounting Standards Board



GRI – Global Reporting Initiative



EFRAG – European Financial Reporting Advisory Group

Certain Frameworks are more popular in different regions. For example, the GRI is the most used in North America but the EFRAG is more popular in Europe and has stricter reporting standards.

Step 4

Set Measurable Goals

In order to develop measurable goals, first companies must identify approx. 5 potential risk areas from which they establish goals for value creation for each identified risk area.



External consultants add value at this stage by building structure around each risk area through developing processes, designing controls, ensuring compliance and monitoring progress.

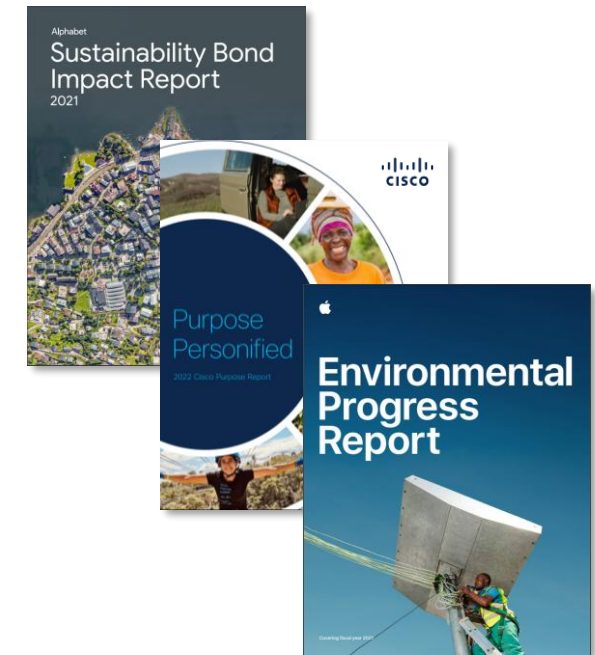
Step 5

Document and Communicate

Having done much of the hard work in creating an ESG committee, choosing an ESG framework and implementing company-wide change, the final step is to document and communicate these steps forward. This process helps in many ways:

1. **Demonstrates** your organization's **commitment to sustainability** and responsible business practices
2. **Attracts investors** who are looking to make more informed and environmentally conscious investment decisions
3. **Provides a clear roadmap** for achieving sustainability goals, helping to identify areas for improvement and **guide decision-making**
4. **Increases transparency** and **accountability** by enabling stakeholders to monitor progress and hold the organization accountable for its actions
5. **Enhances** the organization's **reputation, credibility** and **trust** with its consumers which all benefit the **company's brand**

Sample ESG reports:



Overall, documenting and communicating your ESG compliance strategy and contributions can help to build trust and credibility with stakeholders, foster innovation and collaboration internally, and drive positive social and environmental impact



Apple has made a strong commitment to ESG over its history and has tracked the greenhouse gas emissions of its products since 2007. Since, they have allocated progressively more resources to becoming a more socially responsible company. Like many transnational corporations do, they volunteer to report their ESG progress through 3 different frameworks the SASB, the TCFD and the GRI.

The following include some of Apple's pledges to each aspect of ESG:

Environmental

- Become carbon neutral across their entire supply chain and operations by 2030.
- Invest in renewable energy with a view to source 100% of its energy responsibly.
- Innovating packaging to reduce footprint whilst also using as much recycled materials in new products as possible.
- Eliminate waste sent to landfill from corporate facilities and suppliers.

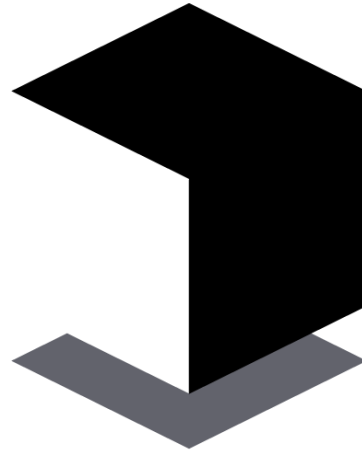
Social

- A number of programs to promote education and support for underrepresented groups such as "Everyone Can Code" which brings coding education to schools and communities across the world.
- Supplier Code of Conduct which ensures workers' rights and improved conditions.
- Efforts to hire a greater proportion of underrepresented groups.

Governance

- A governance structure which ensures a robust board of directors, made up of individuals with a diverse range of expertise and experiences whilst ensuring the highest levels of transparency and accountability.
- Comprehensive policies on data privacy and management.





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